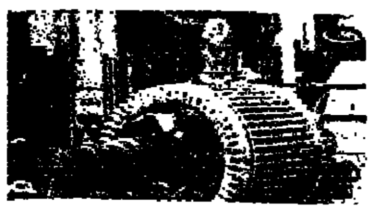

Germany

Forging solidarity from economic slowdown

Page 14

India

Threat to a secular society

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Oil

Can Opec staunch the flow?

Page 17

Survey

● *Derivatives*

Section III

FT NEWSPAPER of THE YEAR

FINANCIAL TIMES

Europe's Business Newspaper — TUESDAY DECEMBER 8 1992

First US Marines poised to move into Mogadishu

The first contingent of a force of 1,800 US Marines is expected to land in Somalia's capital, Mogadishu, tomorrow. The multinational intervention force, with the task of protecting food supplies for starving civilians, is expected to number between 28,000 and 36,000 by Christmas. Page 16

Airline drops $6.2bn orders: Northwest Airlines, heavily indebted US carrier, has delayed or cancelled $6.2bn worth of aircraft orders and has agreed $2.2bn in new financing and cost savings which should ensure its survival. Page 18

Forte sells caterer: UK hotel and restaurant group Forte is to sell its Gardner Merchant contract catering subsidiary to a consortium led by venture capital company CinVen, but will retain a 24.8 per cent stake. Forte is to acquire 52 motorway restaurants and four hotels in France from the Accor hotel group for FFr540m ($100.5m). Page 17; Lex, Page 16

BHP to cut debt: Australian industrial and mining conglomerate BHP has sold A$400m ($276m) of assets to Westpac Banking, the Australian bank, to cut its debt. Page 19

Japan attempts to speed trade talks: Japan is due today to offer to open more than 100 service industries to greater foreign competition in an attempt to speed negotiations in the Uruguay Round of world trade talks. Page 6; Japan's trade surplus grows, Page 4

Israeli soldiers shot dead: Gunmen killed three Israeli soldiers in the occupied Gaza Strip on the fifth anniversary of the start of the Palestinian revolt against Israeli rule. Page 4

Opposition in control: Venezuela's opposition gained a big victory in state and local elections, forcing the Democratic Action party into a minority position for the first time in the country's 34-year democratic history. Page 5

German banks ahead: Dresdner Bank and Bayerische Vereinsbank reported robust growth in profits, showing the resilience of the German banking sector amid the country's deepening economic gloom. Page 17

UK brewer's profits drop: Deepening recession in the north of England and Scotland led to a 6 per cent fall in first-half pre-tax profits to £108.4m ($164.8m) at UK brewing and leisure group Scottish & Newcastle. Page 17; Lex, Page 16

Salvagers losing fight against oil slick

Salvage workers fight a losing battle against a tide of oil from the Greek tanker Aegean Sea which ran aground at the entrance to La Coruña harbour last week. Gales are spreading the 67,000 tonnes of oil along Spain's north-west coast.

Bids for Qantas due: British Airways, Singapore Airlines and Air New Zealand are expected tomorrow to deliver detailed bids which will lay the groundwork for the sale of up to 49 per cent of Australian state-owned airline Qantas. Page 19

Biased election probe claimed: Kim Dae-jung, leading opposition candidate in South Korea's presidential elections, said the government was trying to deny him victory by conducting a biased investigation of alleged electoral malpractices. Page 4

Incentive gains from rationalisation: Swedish industrial group Incentive reaped the benefits of rationalisation as profits rose 57 per cent to SKr222m ($32.4m) in the first nine months. Page 18

UK bank to split roles: Andrew Buxton, chief executive of Barclays Bank, who is to add the role of chairman to his duties, said the bank would respond to shareholder pressure by splitting the roles again after it had decided on the best way of doing so. Page 17

Briton wins appeal: British hospital manager David Brown, 32, who faced a flogging in Saudi Arabia for allegedly swearing at his staff, won an appeal against his 50-lash sentence, the UK Foreign Office said.

■ STOCK MARKET INDICES		
FT-SE 100:	2,754.5	(−4.9)
Yield	4.44	
FT-SE Eurotrack 100	1,058.75	(+3.97)
FT-A All-Share	1,368.27	(-0.0%)
Nikkei	17,287.12	(−88.57)
New York lunchtime		
Dow Jones Ind Ave	3,300.30	(+11.62)
S&P Composite	433.58	(+1.52)

■ US LUNCHTIME RATES		
Federal Funds:	3 1/16%	(2 7/8%)
3-mo Treas Bills: Yld	3.301%	(3.322%)
Long Bond	102	(101 13/32)
Yield	7.451%	(7.485%)

■ LONDON MONEY		
3-mo Interbank	7 1/8%	(Same)
Liffe long gilt future:	Dec 99 27/32	(Dec 100 5/32)

■ NORTH SEA OIL (Argus)		
Brent 15-day (Jan)	$18.16	(18.25)

■ Gold		
New York Comex (Dec)	$336.1	(335.7)
London	$335.15	(335.45)

■ STERLING		
New York lunchtime:		
$	1.5865	
London:		
$	1.5875	(1.5575)
DM	2.49	(2.4875)
FFr	8.485	(8.445)
SFr	2.2225	(2.2325)
Y	197.5	(194.5)
£ Index	81.2	(80.7)

■ DOLLAR		
New York lunchtime:		
DM	1.558	
FFr	5.311	
SFr	1.394	
Y	123.7	
London:		
DM	1.5685	(1.597)
FFr	5.346	(5.4225)
SFr	1.4	(1.4335)
Y	124.4	(124.85)
$ Index	65.8	(65.5)
Tokyo close Y 124.87		

Austria	Sch30	Greece	Dr250	Lux	LFr60	Qatar	QR12.00		
Bahrain	Din1.250	Hungary	Ft162	Malta	Lm0.50	S.Arabia	SR11		
Belgium	BFr60	Iceland	IKr180	Morocco	MDh13	Singapore	S$4.10		
Bulgaria	Lv25	India	Rs30	Neth	Fl 3.50	Spain	Pta200		
Cyprus	C£1.00	Indonesia	Rp3600	Nigeria	Naira20	Sweden	SKr14		
Czech	Kcs35	Israel	Shk5.50	Norway	NKr15.00	Switz	SFr3.00		
Denmark	DKr14	Italy	L2800	Oman	OR1.50	Syria	S£P50.00		
Egypt	E£4.50	Jordan	JD1.50	Pakistan	Rs35	Thailand	Bht60		
Finland	FM12	Korea	Won 2500	Philippines	Pso45	Tunisia	Din1.250		
France	FFr8.50	Kuwait	Fils.600	Poland	Zl 22,000	Turkey	L6000		
Germany	DM3.20	Lebanon	US$1.25	Portugal	Esc190	UAE	Dh12.00		

EC battle looms at Edinburgh summit

Ministers pessimistic about reaching deal with Denmark

By Lionel Barber in Brussels and Ivo Dawnay in London

EUROPEAN Community foreign ministers are braced for a bruising clash today as they mount a final effort to resolve the Danish question which has the potential to wreck this week's summit in Edinburgh.

Officials in London also warned that they were far from optimistic about agreement being reached on the future financing of the Community and on a compromise over Denmark.

A British presidency draft aimed at finessing Denmark's demands for exemptions from the Maastricht treaty on European monetary and political union has been attacked on all sides.

In Brussels, EC officials reacted with dismay to reports that Danish opposition parties would force the minority centre-right government in Copenhagen to present a long list of objections to the UK paper at today's meeting of EC foreign ministers.

Mr Uffe Elleman-Jensen, Danish foreign minister, gave a foretaste of the clash when he told his EC counterparts meeting in Brussels that the UK text "does not go far enough".

Mr Poul Nyrup Rasmussen, opposition Social Democratic leader, said after a meeting of the three parties that the British plan was "generally not clear enough". He said Denmark wanted any agreement to state clearly that the country would not take part in the treaty's general drive towards European union.

"The British plan must be changed. If not, we cannot hold a new referendum," he said.

Amid signs of British efforts to lower expectations of a breakthrough, Mr Douglas Hurd, UK foreign secretary, said that it would be "bad news" if there was no Danish deal but the EC would press ahead with efforts to reach a deal next year.

Senior UK officials recognise, however, that the Danish question could torpedo efforts to reach a budget deal and other agreements on subsidiarity and enlargement in Edinburgh, threatening a diplomatic debacle for Mr John Major who is hosting the summit.

In London, as Mr Major completed his tour of EC capitals with visits to The Hague and Dublin, officials also warned that they were far from optimistic about agreement being reached on the future financing of the community and on a compromise over Denmark.

On his return, Mr Major claimed he had made progress but was at pains to add that he could not recall a summit with so many important issues on its agenda, all closely interlinked.

In an attempt to cast an encouraging light on the summit, he added that often the results only came in the final denouement. "We must wait and see," he said.

However, his meetings only served to underline the strongly-held disagreements. Whereas Mr Ruud Lubbers, the Dutch premier, made it clear that he is doggedly opposed to a substantial increase in Community spending,

Continued on Page 16

Backing for EEA without the Swiss

By Our Foreign Staff

EC foreign ministers yesterday brushed off Switzerland's rejection of closer ties with the Community, declaring that the European Economic Area would go ahead as planned. Mr Tristan Garel-Jones, UK foreign office minister, said: "Membership of the Community is not compulsory."

EC foreign ministers had asked the European Commission to report back to their next meeting on December 21 on how to go ahead with the EEA without Switzerland, he said.

Officials close to Mr Jacques Delors, the European Commission president, dismissed suggestions that Swiss rejection was a further blow to the president's dream of a wider European political and monetary union stating: "It's a Swiss problem, not a Community problem."

However, Mr Frans Andriessen, the EC external affairs commissioner, said the Swiss had chosen the path of isolation through rejection of the EEA, adding that Switzerland could no longer count on EEA privileges such as the freedom of movement of capital, goods, and people.

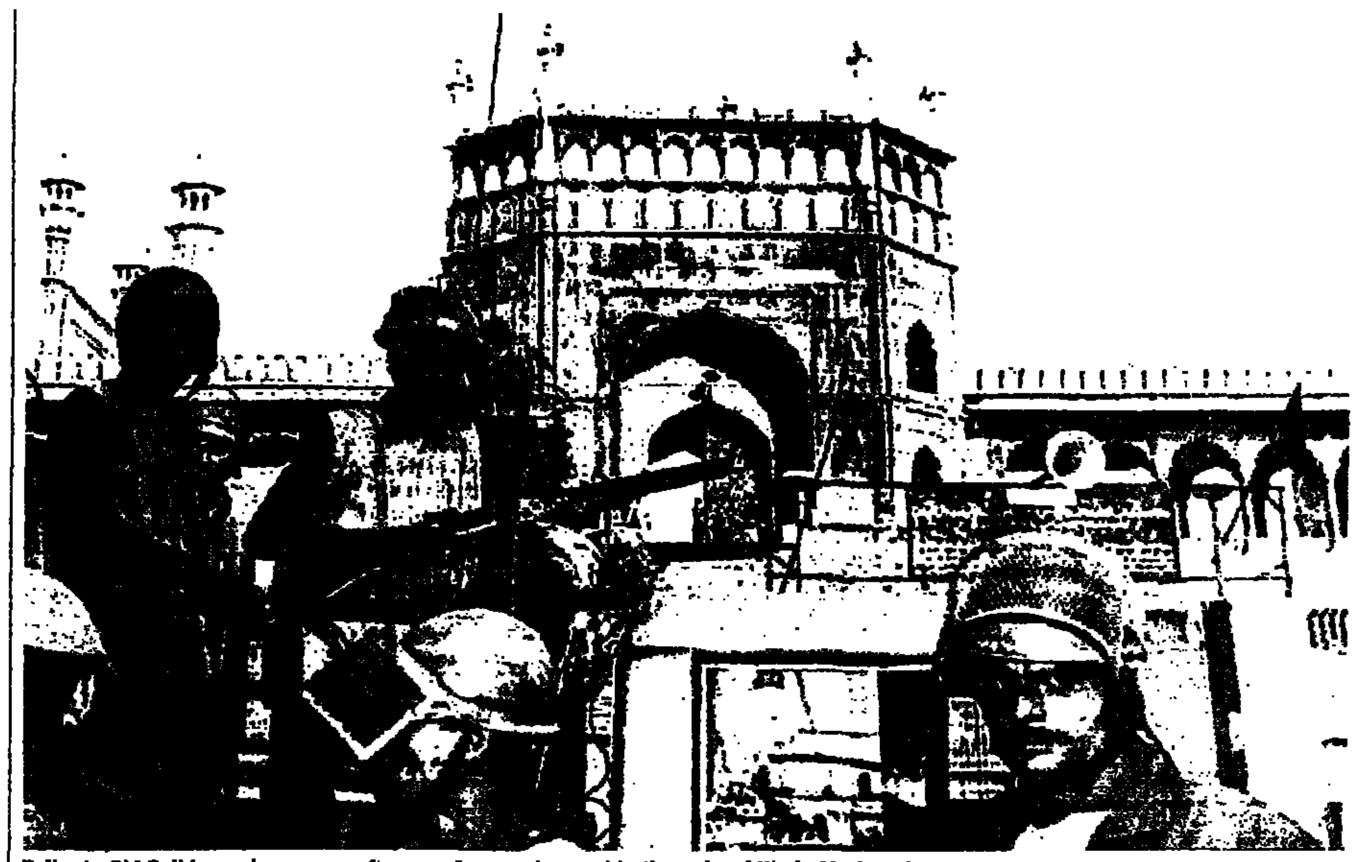
Mr John Major, Britain's prime minister, said: "The Swiss ... have excluded themselves from the largest free-trading market in the world."

Economically, Swiss industrial products will not automatically be accepted as meeting EEA standards and delays on Swiss imports imposed by EC authorities' examinations could be disruptive. Several Swiss high-technology companies expressed disappointment that Switzerland will not be able to sit on EC committees planning Community-wide research projects.

Swiss ministers have said they will press ahead with plans to harmonise many laws and regulations with those of the EC. But that provides no guarantee that the EC will acknowledge them. And many analysts fear that without pressure from EC regulations, the momentum for dismantling Swiss cartels could be lost.

The Swiss rejection, though not unexpected, is likely to delay the entry into force of the EEA, which will link the seven European Free Trade Association countries with the 12 EC nations. The EC plans talks with Norway, which holds the Efta presidency, to prepare for a diplomatic conference.

Result perplexes Swiss, Page 16
World stocks, Back page, Sect II



Police in Old Delhi guard a mosque after a curfew was imposed in the wake of Hindu-Moslem riots

Icahn gives up control of TWA in deal to save airline

By Nikki Tait in New York

THE SURVIVAL chances of Trans World Airlines, the bankrupt US carrier owned by Mr Carl Icahn, improved substantially yesterday after he agreed to give up control of the airline and provide financial support to it.

The former corporate raider reached the deal with the airline's creditors, its three unions and the Pension Benefit Guaranty Corporation, the federal agency which is required to guarantee payments from TWA's *underfunded pension plans.*

Mr Icahn, who currently holds a majority of TWA's shares as well as certain debt securities, will relinquish control over the airline and abandon all claims relating to it.

Assuming the company's formal reorganisation plan is approved next year, ownership will pass instead to the company's three unions and unsecured creditors.

The unions will receive 45 per cent of the equity in the airline, in return for agreeing to a cut of 15 per cent in wages and benefits. the unsecured creditors will *share the remaining 55 per cent,* in return for forgiving about $1bn of claims.

Under the deal, Mr Icahn or his other private interests will also provide $200m of short-term financing to TWA, whose dwindling cash balances have been a source of mounting concern.

The US pensions agency, which guarantees about $730m of TWA's benefits, says the airline's plans are underfunded by $1.05bn overall. Under the agreement, these pension plans will be frozen, and Mr Icahn will become their "sponsor" – essentially responsible for their financial performance.

TWA will issue a $300m note, paying interest at an annual rate of 11 per cent over 15 years and secured on its international routes and Kansas City maintenance base, to help make up the funding requirements.

Mr Icahn or his private interests must then supplement these payments by $20m annually for four years, either through personal contributions or by achieving better than anticipated returns from the pension funds' assets.

The pension issue has been the subject of much hard bargaining, and the PGBC was previously threatening to "terminate" the plans – that is, legally close

Continued on Page 16

Violence claims 200 lives as Indian crisis widens

By Stefan Wagstyl and Shiraz Sidhva in New Delhi

AT LEAST 200 people died in communal violence in India yesterday, widening a political crisis which followed the destruction *by Hindu militants of an ancient* mosque.

Reports from Ayodhya, northern India, last night indicated the government was preparing to send troops to reclaim the ruins of the mosque, prompting fears of a bloody confrontation with the estimated 50,000 militants still occupying the disputed site.

Mr P.V. Narasimha Rao, the prime minister, faced intense criticism at home and abroad for his failure to prevent the mosque's destruction at a rally on Sunday called by the the rightwing Hindu Bharatiya Janata Party, the main opposition party.

The government was urged to ban militant religious organisations, including the Rashtriya Swayam Sevak Sangh and the Vishwa Hindu Parishad, the extremist groups which support the BJP.

In spite of demands from MPs from other opposition parties for Mr Rao's resignation, it seemed last night that the ruling Congress party would rally around the beleaguered prime minister for the sake of stability. Congress *blamed the BJP for the assault*

and condemned it as "the greatest political tragedy which has overtaken the nation since the assassination of Mahatma Gandhi".

Protests from abroad included condemnation from Pakistan, where the government called a nationwide strike for today.

Mr L.K. Advani, the BJP leader, resigned to take responsibility for the assault, though he remained in his party post. Amid uproar in parliament, Moslem MPs demanded Mr Advani's arrest and hanging. They also urged the government to reoccupy the site and rebuild the mosque as a shrine to national reconciliation.

They were supported by many Congress MPs who appealed for the mosque to be rebuilt with a Hindu temple alongside. However, it was difficult to see how this could be achieved in the face of intense Hindu opposition.

In Ayodhya, the militants yesterday went about building a Hindu temple on the disputed site, apparently disregarding the threat of assault by troops and police. The central government has assumed direct responsibility for events at the site by imposing presidential rule in Uttar Pradesh, the state which includes Ayodhya.

In several parts of the country the army was deployed and curfew imposed as communal riots swept through almost every state and the toll of victims – mainly Moslems – mounted rapidly. In Bombay more than [illegible] people died in clashes involving 10,000 protesters.

Violence also hit Ahmedabad.

Continued on Page 16

CONTENTS

EC ministers fail to find budget answer

By David Gardner in Brussels

EC foreign ministers failed yesterday to break the impasse over the EC budget, one of the vital issues needed to pave the way for a successful summit in Edinburgh.

The UK played down growing expectations that its plan would raise the Community's budget ceiling.

At the same time, Spain *remained adamant it would* not budge from its demand that "cohesion" finance be doubled for the four poorest member states. "Better no agreement at Edinburgh than a bad one," said a Spanish minister, making clear Madrid was willing to play a long game. "There are plenty of other cities and lots of other dates."

Foreign ministers, in Brussels for a two-day meeting ahead of the Edinburgh summit on Friday, were also trying to clear the way for agreement at Edinburgh on ratification of the Maastricht treaty by Denmark and the UK, enlargement of the EC, and decentralised decision-making or "subsidiarity."

"We are still in three groups of four," said a UK presidency official. Spain has the firm backing of the other three "cohesion" countries: Ireland, Portugal and Greece. The UK's Treasury-dictated line has the support of Germany, the Netherlands, and – with nuances – Italy. Wobbling in the middle are France – on the look-out for support in its opposition to the Uruguay Round farm deal - Denmark, Belgium and Luxembourg. Neither Germany nor Italy, however, are unconditional allies of the UK. Bonn is hardening its ideas on how to cut back the budget rebate Britain has received since 1985 (worth around £2bn a year), even though the UK says this is non-negotiable. Italy, the Dutch, and a host of others could join in this assault, limiting UK room for manoeuvre.

The UK 10 days ago presented a "compromise" on the *so-called Delors II future* financing plan, freezing EC revenue for three years at its current ceiling of 1.2 per cent of Community gross national product, then allowing a gradual rise to 1.25 per cent by 1999.

This would mean an increase in the annual budget from Ecu66.8bn (£54.04bn) now to Ecu79.4bn (1992 money) in 1999. The original Delors II package wanted a rise of nearly a third, to Ecu87.5bn – and by 1997. However, Mr Delors last month offered to stretch a smaller increase over seven years, getting to Ecu80.2bn by 1997 and Ecu86.2bn by 1999. The Commission's revision would raise total fiscal transfers for regional and cohesion spending from Ecu18.6bn now to Ecu27.3bn in 1997 and Ecu30.2bn in 1999. This is close to what Spain and its allies are fighting for, but at the expense of planned increases in other areas.

The British compromise would raise overall cohesion spending only to Ecu23bn in 1997, and Ecu23.8bn in 1999.

a Uruguay Round deal. The currency turbulence of recent months provides a plausible umbrella for such a rise - but only if the money is available.

Burning the house Jacques built

David Gardner on UK plans to torch 71 pieces of EC law at the altar of subsidiarity

THE British government wants to throw 71 pieces of EC legislation on the bonfire at the Edinburgh summit *this week, to put national* governments firmly in control of Europe.

As details leaked out of the scale of UK plans to roll back Community power, the European Commission was preparing a pre-emptive strike with its own more modest list of 24 EC proposals to be burnt at the altar of "subsidiarity".

At the Birmingham summit in October, EC leaders pledged to bring the Community "closer to the people", and at Edinburgh they hope to agree on a *division of EC power in* line with subsidiarity – the notion that decisions should be taken at European level only when national or local action would be ineffectual.

The UK has chosen consumer, social, and environment policy as its targets. Of the items it wants scrapped, amended or withdrawn, 21 are EC measures to protect consumers, 18 are in social policy – mainly proposals to strengthen workers' rights – and 27 laws or proposals to raise "green" standards against pollution. What is more surprising, Britain is also advocating loosening the EC's grip on competition policy. It

British officials insist that the "hit-list" is not from the current UK presidency of the EC, but was drawn up by individual British ministries. It has already been sent to the Commission president, Mr Jacques Delors.

Some Commission officials have reacted angrily, while others are confident the UK list will be heavily pruned – not least because it cuts across the aims of Britain's main allies on subsidiarity, Germany and Denmark, on social and environment policy.

Mr Jacques Delors with French European Affairs Minister Elisabeth Guigou in Brussels yesterday

The inclusion in the UK hit-list of plans the Commission has not yet adopted – and in at least one case not even discussed – will further fuel the suspicion of the smaller and poorer member states that it is trying to lead a big-country power grab by diluting the Commission's sole right to propose EC legislation. The smaller states see the Commission as guarantor of their stake in the Community.

Of 37 EC laws already on national statute books, the UK wants to repeal 22 directives, including ones on the quality of shellfish and freshwater-fish water and eight on food quality. It wants to amend 15 existing laws, including ones on wildlife habitats, hazardous waste, and bathing, drinking and ground water, as being too prescriptive and expensive.

"More discretion should be left to member states on achieving standards" approved unanimously in the 1970s and 1980s, the document says on water.

Britain wants 18 Commission proposals – largely on social policy – withdrawn altogether. These include plans for Europe-wide works councils, obliging companies with more than 1,000 employees in more than one member state to inform workers of job cuts, new working practices and technology.

Draft directives on part-time work, the employment of young people, and working time would all be scrapped, as would a directive on the liability of suppliers of trans-border services. There is "no evidence ... that consumers are discouraged from buying services across frontiers by different liability regimes," the UK document argues.

A plan by the Commission to diminish packaging waste would be amended as "too restrictive" in its environmental objectives.

Under the heading of proposals "not yet adopted by the Commission but should proceed no further", the UK says extending machinery safety provisions to second-hand machines is "disproportionate"; queries the legality of extending equal treatment between men and women to social security areas such as pensionable age; and argues that plans to make environment impact assessment obligatory in policy as well as individual projects is constitutionally unacceptable.

"How to take account of environmental (or any) considerations in policy-making must be up to national governments," the UK insists.

Plans the UK thinks Brussels should reconsider include requests by member states to harmonise road safety and speed limits, price transparency and disabled people's access to public transport, and a "communication on social exclusion" that the Commission has not even discussed at senior official level.

Mr Delors' riposte, which the Commission will discuss tomorrow, is a careful mix of bread and circus. Trivia, such as the harmonisation of shoe-labelling and changeovers to summer-time, or the time-share directive the UK asked for to protect investors in holiday homes, would be torched. But in "green" and social policy Brussels plans to offer up only the zoos directive and subcontracting rules.

Meatier sacrifices include rules defining a Community ship-owner, and changes in the plans for liability of suppliers of services and the mobility of the disabled. The Commission is astutely proposing to withdraw two advertising directives – the regulating of pejorative comparison with other products and the banning of tobacco advertisements.

The advertising plans incensed newspaper owners worried about revenue loss, and may have contributed to the avalanche of stories about "Euro-lunacy", which the Commission's modest pyre is intended to reduce.

Major's tour ends on note of gloom

By Ivo Dawnay, Political Correspondent

MR John Major completed his pre-summit tour of European capitals yesterday with stark reminders from Dublin and The Hague over the scale of the difficulty he faces in achieving a wide-ranging accord in Edinburgh this weekend.

The contrasting approaches of Ireland and the Netherlands on the key issue of financing of the Community led officials in London to describe the mood as far from "optimistic".

On his return, the prime minister claimed that he had made progress but immediately was at pains to add that he could not recall a summit with so many important issues on its agenda, all inter-linked. In an attempt to cast an encouraging light on the summit, he added that often the results only came in the denouement. "We must wait and see," he said.

However, his meetings yesterday only served to underline the strongly-held disagreements that remain. Whereas Mr Ruud Lubbers, the Dutch premier, made it clear that he is doggedly opposed to a substantial increase in Community spending, Mr Albert Reynolds, the Irish prime minister sided firmly with his southern European allies in seeking a generous settlement.

Furthermore, it emerged that Ireland is in dispute with the European Commission over the criteria by which the new cohesion fund would be distributed. Dublin claims preliminary proposals leave it at a disadvantage to its Mediterranean partners. Downing Street officials conceded that northern and southern member states were still "a long way apart" on financing questions, adding that lack of an agreement might well scupper hopes of pressing on with enlargement of the Community.

There was a little more hope of reaching an accord over the terms Denmark is seeking to aid its ratification of the treaty. However, officials pointed out that grave doubts remained among several member states over the legal validity of the compromises now being sought by Copenhagen.

Although it is an old practice of EC presidencies to be pessimistic prior to a summit to accentuate subsequent successes, there appeared genuine anxiety last night.

Mr Major is due to meet Mr Jacques Delors, the Commission president, tomorrow afternoon, before flying to Edinburgh on Thursday.

Common health approach

By John Willman, Public Policy Editor

EUROPEAN countries are adopting similar market-based health care reforms to contain costs and improve efficiency, according to a report published today by the Organisation for Economic Co-operation and Development.

The OECD says that its 24 member countries continue to face persistent problems in the financing and delivery of their health services. These include rapid increases in health spending and concerns over inefficiency and poor performance.

Analysis of reforms introduced in seven European countries during the 1980s, however, shows convergence in the solutions devised to deal with these problems, despite considerable differences between health care systems.

Public finance – through taxation or compulsory insurance – continues to fund access to basic health care for most people in these countries, the OECD says. But health care is increasingly provided under contract by doctors and hospitals competing in managed markets.

In some countries, the government is devolving responsibility for purchasing health care down to the local level, moving away from centralised administration. However, this is matched by increasing efforts to cap the overall health care budget, so that local purchasers in effect ration funds.

The reforms have been successful in reducing or even halting the rate of growth of health expenditure as a share of GDP, the OECD says.

They have also succeeded in improving consumer choice and introducing competition between doctors and hospitals. In the new health markets which are created, money follows the patients and rewards efficient and innovative doctors and hospitals.

The findings will be discussed at a two-day conference of OECD social policy ministers in Paris which begins today.

The Reform of Health Care. OECD. £30.

Greeks press Twelve to withhold recognition in dispute over name

Macedonia likely to disregard veto

By Kerin Hope, recently in Skopje

MACEDONIA plans to press for membership of the United Nations later this month if the European Community fails to reach agreement in Edinburgh on recognising the ex-Yugoslav republic.

Mr Stevo Crvenkovski, the deputy president, said that Macedonia had received "a lot of encouragement from other countries" to go ahead with its UN application, which was submitted in September but put on hold while a special EC envoy, Mr Robin O'Neill, tried to resolve Greek objections to recognising Macedonia by that name. Hopes that Athens and Skopje could compromise on the name issue crumbled last week when Mr Constantine Mitsotakis, the Greek prime minister, rejected the EC envoy's report.

Both Athens and Skopje have been urged to accept a compound name in which the word Macedonia is used as an adjective not a noun.

While the EC leaders may be unwilling to reverse their support at the Lisbon summit in June for the Greek view that Macedonia should not be recognised under that name, Greece fears that if Macedonia decides finally not to compromise, individual member states may go ahead with recognition after the summit.

"If the EC does not recognise us, it is realistic to go at once to the UN. We've no reason to suppose that anyone at the Security Council would veto our membership, since we meet the legal conditions," Mr Crvenkovski said.

Macedonia is increasing ties with individual EC members. Germany, which has opened a consulate in Skopje, is to provide aid for Bosnian refugees living in Macedonia, and Italy plans to open a consulate early next year.

The economy is in increasing difficulty because Macedonia is excluded from the international credit system. Exports have collapsed and the republic has been unable to cover any of the $80m due this year in payments of interest and principal on its $480m foreign debt.

● In Brussels, a senior Nato official said that the US and some of its allies were considering new steps to prevent a spill-over of the Yugoslav conflict into the troubled province of Kosovo, agencies report.

The growing threat of a wider war in the Balkans would be discussed when Nato defence ministers meet later this week and alliance foreign ministers meet next week, the official added.

Bonn parties find compromise to calm asylum row

By Judy Dempsey in Bonn

THE German parliament is expected to pass controversial legislation aimed at curbing the influx of foreigners and at the same time dilute the growing influence of extreme-right groups which have exploited widespread concern over the asylum issue to call for racist policies.

The draft proposals will go before the Bundestag when it reconvenes after Christmas. They were thrashed out between the conservative government coalition and the opposition Social Democratic Party (SPD) at the weekend *and still retain the individual* right to asylum, as guaranteed in article 16 of the constitution. But draft amendments include the right to send back "manifestly *unfounded* cases" to a third country. The third countries include Poland, the Czech Republic, Slovakia, Austria and Switzerland, all of which have borders with Germany.

Border guards, for instance, will be able to decide, often on the spot, whether to prevent individuals from entering the country, even if they invoke article 16.

Mr Walter Koisser, head of the Bonn office of the United Nations High Commissioner for Refugees, yesterday said *that if any person was sent* back to Poland, the conditions for appeal, housing, infrastructure, and for guaranteeing the safety of the applicant, do not yet exist.

"Poland, the Czech Republic, and Slovakia are young democracies. They have signed the Geneva Convention on Refugees, but they do not have the legislation which can translate the convention into practice," he said. "I really do not think that they are geared up towards dealing with a massive number of cases who will be turned back at the German border." Germany, for instance, has already a backlog of 450,000 cases.

A spokesman for the Interior Ministry said yesterday that Germany would provide financial assistance for those sent to a third country. Over the past year, economic refugees, and genuine refugees, particularly gypsies from Romania and Bulgaria, have been repatriated.

"We want to make Germany a less attractive place for economic refugees," the spokesman said. But he admitted that it was unclear how the propos*als would stem illegal immigra*tion, which exceeds 100,000 people a year.

The proposals, which are also designed to speed the administrative procedures, will still allow the courts in Germany to decide if an asylum seeker is a legitimate applicant. If an asylum claim is rejected, the applicant will be returned to a third country, where an appeal can be lodged. However, SPD and UN officials want assurances that those countries will not repatriate asylum-seekers.

With the case of those fleeing civil war, the governing conservative Christian Democratic Union, the conservative *Christian Social Union*, its sister party in Bavaria, the liberal Free Democrats, and the SPD went some way towards giving these people – many from the former Yugoslavia – a special status which will entitle them to the right of temporary residence in Germany without applying for political asylum.

The SPD and the FDP said the amendments to the asylum law were only part of a long process towards integrating the country's 6.2m foreigners.

German defence minister Volker Rühe (right) is accompanied by the commander of ex-Soviet forces in Germany as he reviews troops at the Commonwealth of Independent States military headquarters at Zossen, near Berlin. He was holding talks on their withdrawal

Slovenia's voters reject Balkans diet of nationalism

By Laura Silber in Ljubljana

SLOVENIA has bucked the trend of nationalism in the Balkans as moderates yesterday emerged as the biggest winners in the first elections since the tiny republic won independence from Yugoslavia last year.

Mr Milan Kucan, the incumbent, won re-election as president with 64 per cent of Sunday's ballot, according to officials results with more than half the vote counted.

The centrist Liberal Democrats (LDS) led the vote for a new 130-seat bicameral parliament, with 23 per cent. The Christian Democrats, their closest rivals, received 14.9 per cent and the United Left, which includes the former communists, trailed behind with 13.28 per cent. Mr Janez *Drnovsek, the current prime* minister and head of the LDS, said negotiations would soon be under way to form a coalition government.

Despite the strong turn-out in support of Slovenia's fledgling democracy, many Slovenes were worried about the showing of Mr Zmago Jelincic, the ultra-nationalist leader of the Slovene National Party, who came in fourth with 10 per cent of the vote.

Mr Jelincic has called for the expulsion of Bosnian refugees and guestworkers from the former Yugoslav republics in order to make jobs for Slovenes.

But President Kucan, a former communist who is widely respected for opposing Serb-dominated Yugoslavia, said the elections would represent a victory if Slovenia looked towards the future and not the past. He called on citizens to build economic prosperity.

Despite freezing temperatures and flooding, some 75 per cent of the 1.5m registered voters turned out for the ballot.

Daimler-Benz joins campaign for tolerance

By Christopher Parkes in Frankfurt

DAIMLER-BENZ, Germany's biggest industrial concern, has appealed publicly to its workforce to show tolerance and solidarity in the face of rising racist violence.

An open letter from Mr Edzard Reuter, group chairman, released before publication in 30 German newspapers tomorrow, said "criminal fanatics" who did not shrink from murder challenged German self-respect.

"Irrationality and violence must not be allowed to take hold at a time when the signs point to crisis and we are feeling the full weight of worldwide *recession," it said.*

The fight against intolerance had to start with improved communications in the workplace – the first point of contact between Germans and foreigners.

Non-Germans make up more than a quarter of Daimler's 390,000 worldwide workforce.

The group employs 40,000 foreigners inside Germany. Publication of the letter, which will reinforce a mounting campaign within the business community against xenophobia, reflects concern both at the two-year wave of violence and at increasing indications that international revulsion could damage *German business interests.*

Xenophobic violence has been growing since a mob fire-bombed a refugee hostel in Hoyerswerda, Saxony, two years ago, and Mr Reuter's letter indicated that the current economic downturn could make ethnic tensions worse.

Lufthansa, the state-owned airline, ran press advertisements last weekend stressing the international nature of the group. "We are foreigners every day," the copy said.

Preussag, the steel and engineering group, last week declared that those who wanted a future must be internationally minded, and not just at holiday time.

"Politics and not our foreign colleagues are responsible for unemployment, housing shortages and poverty," it said in a statement signed by management and workers' leaders.

A similar recent declaration from Robert Bosch, the electronics and motor vehicle components group, said xenophobia damaged Germany's reputation and German companies abroad.

All the corporate protests have stressed the contributions made to economic well-being by foreign workers.

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Crimea order will upset Ukraine

THE Russian Congress of People's Deputies yesterday questioned the status of Sevastopol, home port of the disputed Black Sea Fleet, Reuter reports from Moscow.

The move is certain to raise hackles in Ukraine.

The Congress, under strong pressure from the conservative opposition, ordered the smaller standing parliament to consider the status of the port. On the Crimean peninsula, it has a mostly Russian population but was ceded formally to Ukraine, within the Soviet Union, in 1954. Ukrainian independence last December made the break real.

President Boris Yeltsin has accepted Ukrainian sovereignty over the Crimea but Russian conservatives have urged that Sevastopol should have special status rather than belonging solely to Ukraine.

They cited a 1948 decree giving the city an autonomous administrative centre.

Relations between Russia and Ukraine, the two most powerful ex-Soviet states, have been soured by a row over sharing the 380-ship Black Sea fleet since the communist superpower collapsed.

In August Mr Yeltsin and Ukraine's President Leonid Kravchuk signed an accord on a share-out, which considerably calmed emotions.

Russian nationalists have challenged Ukraine's right to Sevastopol and the whole peninsula, saying Soviet leader Nikita Khrushchev had no legal authority to hand them to Kiev in 1954.

Russia's standing parliament this year raised the Crimea issue, triggering an increase in tensions between Russia and Ukraine.

In Kiev, the Ukrainian Foreign Ministry said the decision to turn the issue over to the standing parliament could only hurt relations between the two republics.

The ministry said the decision violated international principles on territorial integrity and the inviolability of established borders.

Russian Congress postpones vote on Gaidar

The commander of a troop of Cossacks inspects troops lining the route to the Russian Congress in the Kremlin yesterday

By Leyla Boulton in Moscow

THE Russian Congress of People's Deputies yesterday postponed a vote on whether to reject Mr Yegor Gaidar as prime minister, as the government back-pedalled on a threat to resign if he was turned down.

The postponement, officially attributed to the importance of discussing constitutional amendments, was also designed to give political leaders time to find a deal in order to avoid an embarrassing vote against Mr Gaidar, who is at present acting prime minister.

Mr Gaidar yesterday disavowed the resignation threat the government's press service issued on Sunday, suggesting negotiation has replaced brinkmanship. The negotiations are focusing on a deal which would lead to some ministers being dropped and a way being found for Mr Gaidar to retain control of economic policy without necessarily staying on as prime minister.

Mr Anatoly Chubais, the deputy prime minister responsible for privatisation, said that key ministers were determined to resign unless Mr Gaidar continued in the post of acting prime minister or was confirmed as prime minister by the Congress.

He said Mr Gaidar's resignation would mean the end of large scale privatisation and even his opponents realised that there was no real alternative to Mr Gaidar.

President Boris Yeltsin is keen to keep Mr Gaidar on as the architect of the economic reforms, but is thought reluctant to take on the job of prime minister to let Mr Gaidar get on with reform unhindered. Another option is for a neutral figure to take on the job of prime minister.

Although Mr Gaidar's closest reform associates have pledged to sink or swim together some, such as Mr Andrei Nechayev, the economics minister, and Mr Peter Aven, the foreign economic relations minister, may yet resign.

The main Civic Union opposition alliance leaders have demanded that "incompetent" ministers should depart and Mr Gaidar should be given a different cabinet post. Mr Chubais said changes in the government should be made "only on the basis of professional complaints about a minister's work, not because Civic Union wants this or that post."

● One of the constitutional amendments adopted by parliament yesterday inserts into Russia's old Soviet-era constitution for the first time the concept of private property. Repeating the wording used in recent Soviet-era legislation, the constitution now promises to protect various forms of property, including private, collective and state property and that belonging to public organisations.

Another amendment gives backing to controversial privatisation laws, saying state property should be handled in accordance with these laws as well as those passed by cities and Russia's constituent republics.

At the weekend, however, the parliament stopped short of endorsing the unrestricted sale and purchase of land, allowing only the free trade of small garden plots.

Bigger pieces of land remain subject to a resale moratorium of five to 10 years.

Bucharest steps back from a market economy

Moves to compromise over reform in Romania are unsettling budding entrepreneurs, writes **Virginia Marsh**

ROMANIA'S third post-Communist government has distanced itself from the "fast track" market reformers of central Europe. Instead, it has opted for a compromise "social market economy" which opposition parties have already denounced as a step backwards.

Mr Nicolae Vacariou, the prime minister, heads a minority government formed by the Democratic National Salvation Front (DNSF), which won most seats in general elections two months ago. He argues that Romania needs a more gradual approach which takes into account social costs.

A slower approach worked for the new prime minister's predecessor, Mr Theodor Stolojan, who was drafted in after miner-led riots in Bucharest toppled the radical reformist government of Mr Petre Roman in September 1991.

The Stolojan administration managed to implement monetary reforms without destabilising the economy. The leu, Romania's currency, was partially liberalised, leading to a 140 per cent devaluation, and subsidies on basic foods and domestic energy were more than halved. But inflation has dropped from 365 per cent last year to 133 per cent in the first 10 months of this year.

By the end of October, exports had risen 26 per cent over the same period last year, and there are signs that industrial production may have ceased falling after declining 50 per cent since 1989. Output increased by 2.6 per cent in October, the third monthly rise in a row.

Mass privatisation has been slow to start, but many new companies have sprung up. By October there were more than 380,000 companies with private capital, and the private sector accounted for 44 per cent of retail sales and 27 per cent of services.

Mr Stolojan's consolidation of reform has helped improve the country's image with foreign investors, who say they are beginning to look more seriously at Romania.

"The country suffers from a credibility gap. The economy is not as different from those in the central European countries as is supposed," says Mr David Nussbaum, a director of Charterhouse Bank, who recently brought a group of senior western financiers to Romania. "We are not unduly worried by the political situation: the core legislation for a market economy already exists."

The country's budding entrepreneurial classes, however, have been shaken by the DNSF's victory. "This is a government of ex-Communist bureaucrats: they do not understand the needs or importance of a private sector. Worse still, they encourage the population to fear the transition and to be suspicious of successful entrepreneurs," says one businesswoman.

So far, the new administration has done little to dispel this view. President Ion Iliescu, who was re-elected on the DNSF ticket, recently reiterated that the state should strengthen the social security network and protect the population against "savage capitalism".

Meanwhile, Mr Vacariou, who before 1989 worked at the Communists' central economic planning institute, talks of implementing reform through administrative measures.

He believes he can tighten control over state enterprises and still encourage initiative. "Spontaneous reform and privatisation would only lead to anarchy," he claims.

Mr Vacariou says he wants to end the "financial blockage" caused by some $2bn (£1.3bn) of inter-enterprise debt by closing unprofitable state enterprises and compensating others. He plans to revive industry – more than 90 per cent state-owned – through increased investment raised from higher taxes. Profitable private businesses say that, with the base rate at 70 per cent and corporate tax up to 45 per cent, they are already starved of capital.

In the short term, however,the greatest opposition to Mr Vacariou's plans is likely to come from within the DNSF and its supporters in parliament. The DNSF holds 34 per cent of seats, well short of a majority, and depends on the 18 per cent of seats held by Communist and nationalist parties to govern. Even the most cautious attempts at reform are likely to run into opposition from the DNSF's satellite parties, the hardline nationalist Greater Romania Party and the Communist Socialist Labour Party.

Their leaders, Mr Corneliu Vadim Tudor, one of deposed dictator Nicolae Ceausescu's top propagandists, and Mr Adrian Paunescu, are among Romania's most skilled politicians. They appear to exercise more influence over the DNSF rank and file than Mr Vacariou, who like many in his cabinet is a newcomer to politics.

Much depends on the two main opposition groups, the Democratic Convention, a loose anti-Communist coalition, and the National Salvation Front led by Mr Petre Roman, which together hold 44 per cent of seats in parliament.

Both groups favour a rapid transition to a market economy but, so far, internal divisions have prevented them from providing a viable alternative. They have agreed to try to form a constructive opposition over the difficult winter months. Otherwise, they fear the economy will worsen, giving rise to increased social tensions.

Korean election probe 'biased'

By John Burton and Alexander Nicoll in Seoul

MR Kim Dae-jung, the leading opposition candidate in South Korea's presidential elections, said yesterday the government was conducting a biased investigation of alleged electoral malpractices in order to deny him victory.

The government is investigating alleged secret funding of the campaign of Mr Chung Ju-yung by the Hyundai industrial conglomerate which he founded. Police have also raided a group of political activists closely associated with Mr Kim's Democratic party on suspicion of illegal canvassing.

Mr Kim stands to benefit from a recent surge in the popularity of Mr Chung, who is thought likely to win votes in the December 18 elections from Mr Kim Young-sam, the ruling Democratic Liberal party candidate who is the front-runner.

In an interview yesterday Mr Kim Dae-jung said: "It is obvious that Chung Ju-yung does not have a chance of being elected but he will take away votes from Kim Young-sam. Therefore this [investigation] is an attempt to reduce my chances of being elected."

He accused the government of breaking its pledge to remain neutral in the campaign and said the DLP was also guilty of vote-buying. "How can the government say that one party is conducting an illegal election campaign and the other is not? This is clearly a biased attitude on the part of the government, which should conduct a fair investigation."

Mr Hyun Soong-jong, the caretaker prime minister, denied that the government was partial in its investigation of Hyundai. "The basic government position is to punish every violator of the election law," he said.

The Hyundai affair has aroused fears in Korea, where no opposition candidate has ever won the presidency, that the government is using its powers to keep the ruling Democratic Liberal party in office, thus undermining the country's progress to democracy.

"I believe it has very negative effects on the democratic process," Mr Kim Dae-jung said.

Police said yesterday that Hyundai Heavy Industries, the group's shipbuilding arm, had created a secret Won55bn (£46.3m) fund and that they were investigating whether any of this money had been illegally transferred to Mr Chung's United People's party. They were seeking to question the company's president.

Mr Kim Dae-jung, though he attacked the government's probe, also accused Mr Chung of undermining Korean politics by improperly using Hyundai employees in his campaign. "He has confused relations between Hyundai and his political party by making politics and business one and the same."

Hindu temples attacked in neighbouring Islamic countries in retaliation for assault on Ayodhya shrine

Moslems furious at mosque destruction

By Farhan Bokhari in Islamabad and Agencies

INDIA'S Moslem neighbours reacted furiously yesterday to the burning of the Ayodhya mosque in India on Sunday, as protests also came from Islamic communities in Britain and elsewhere.

Thousands of Moslem protesters attacked Hindu temples and Indian shops and offices in Pakistan, Bangladesh and Afghanistan. Moslem hardliners in Pakistan demanded a *jihad*, or holy war, against India to avenge the mosque's destruction.

Police in the Pakistani city Karachi battled nearly 200 torch-wielding demonstrators who tried to set fire to a small Hindu temple. More than 30 temples were attacked across the country.

Pakistan's government called for a one-day strike and peaceful rallies to be held today "as a mark of protest against the desecration of the mosque". The government handed a note of protest to the Indian high commissioner in Islamabad.

After an emergency cabinet meeting, the government expressed its "deep anguish and grave concern" at the mosque's destruction. Mr Nawaz Sharif, prime minister, said: "The abhorrent act of extreme fanaticism deserves to be strongly condemned by all civilised countries and especially those which oppose religious intolerance and uphold human rights."

Nawaz Sharif: "abhorrent act"

The government appealed to the United Nations and the Organisation of Islamic Countries to urge India to protect the rights of Moslems and their places of worship. The OIC last night urged Moslems to show restraint.

The OIC statement, received in Cyprus, denounced the demolition as a "heinous crime" and accused the state government of complicity in failing to protect Moslems.

Security forces and police in Pakistan's main cities were last night guarding Hindu temples and police surrounded the Indian High Commission in Islamabad where students burned an effigy of Mr P V Narasimha Rao, Indian prime minister.

In Lahore, protesters stormed an Air India office, dragging furniture into the streets and setting it on fire. Indian airline offices were also a focus of protest in Bangladesh, where thousands of Moslems broke through police cordons in Dhaka and set fire to a building.

Paramilitary troops were called in as nearly 25,000 Moslems gathered outside Dhaka's Baitul Mokarram mosque. About 5,000 young men with iron rods and bamboo sticks tried to storm Dhaka National Stadium, but they were beaten back by police. Begum Khaleda Zia, prime minister, appealed to Bangladeshis to stay calm. "Islam is a religion of peace. It teaches us to exercise restraint," she said.

Dhaka Mayor Mirza Abbas led a peace march by thousands of residents, calling for restraint and vigilance against possible communal violence.

Leaders of the Islamic Constitution Movement in Bangladesh said the mosque's destruction was "an unbearable shock".

It said: "This has been an unpardonable challenge to Islamic faith in India and the Indian government will be responsible for its consequences," it said.

In Afghanistan, Moslem rebels destroyed three Hindu temples and a Sikh holy place.

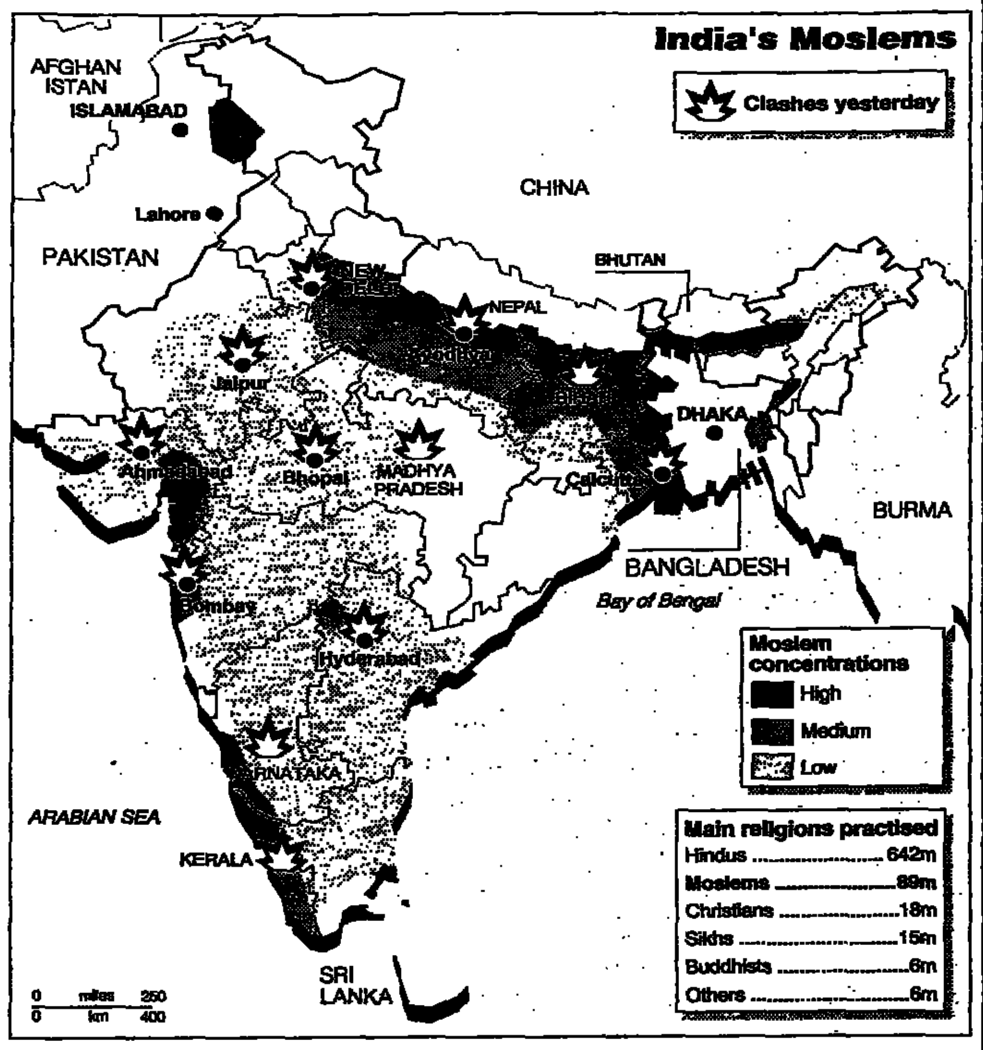
There were reports of six more temples being burned elsewhere in the country.

Britain's Foreign Office warned UK travellers to India that "outbreaks of violence could occur anywhere across the country, particularly the northern states".

In Derby, England, a fire at a Hindu temple appeared to be related to the Indian violence.

Moslem leaders in Britain also appealed for calm.

Hundreds of Pakistani and Indian Moslems closed their shops in the United Arab Emirates.



AYODHYA'S WOES SPAN FIVE CENTURIES

c 1528 – *Emperor Barbar, who led the Mughal invasion, orders a mosque to be built in the Hindu holy town of Ayodhya. Thousands of other mosques are built in sacred Hindu sites during Moslem rule. Later the Ayodhya mosque falls into disuse.*

1949 – Hindu militants break in and install Hindu idols, claiming they arrived by divine intervention. State officials lock the mosque but leave the idols in place.

1961 – Hindu priests and Moslems file court cases, each claiming the site as their own. The proceedings are frozen for 23 years.

1984 – An extreme Hindu group launches the Vishwa Hindu Parishad, a campaign group for the "liberation" of the god Ram's birthplace. The campaign is derailed by a crackdown following Mrs Indira Gandhi's assassination.

1986 – The temple becomes a political issue as the Bharatiya Janata Party adopts demands for reclaiming the mosque.

1990 – Mass rallies at Ayodhya organised by the BJP end in violence. BJP increases parliamentary presence in general election from two seats to 88 and wins control in four states.

Oct 1991 – Militants damage mosque walls in a rally but are repelled by police.

July 1992 – Another rally ends peacefully after the government promises speedy resolution of the court actions.

Dec 6 1992 – Court fails to resolve dispute before another BJP-organised rally. Militants storm the mosque.

Dec 7 1992 – At least 200, mostly Moslems, are killed. Police crack down on nationwide riots.

Curfew imposed on Delhi

By Shiraz Sidhva in New Delhi

PARAMILITARY forces patrolled the Moslem quarters of Delhi's old walled city yesterday as residents were warned over a loudspeaker that an indefinite curfew had been imposed.

Communal outbreaks of violence in other parts of India are often reflected in Delhi. *Some people, such as Mr Mohammed Ilyas*, a butcher whose family has lived for generations in the shadow of the imposing Jama Masjid mosque, had already forbidden their children from going outside.

In spite of the curfew, three people died in Old Delhi in separate incidents yesterday, and police opened fire on irate mobs in several areas. "We have seen much worse," said Mr Javed Iqbal, who has sold snack foods in the old city since the late 1940s. "But when such a famous mosque has been destroyed, what hope is there for the hundreds of small mosques that no government or court protects?"

While most people stayed inside, demonstrations and protest marches were held by opposition parties and civil liberties organisations.

The main office of the Hindu fundamentalist Bharatiya Janata Party, which had been unable to control the wave of communalism it unleashed three years ago, was heavily barricaded.

As one sad Moslem leader said in the parliament building yesterday: "There can be no winners from this – we have all lost out."

Israeli deaths mark intifada

PALESTINIAN gunmen yesterday marked the fifth anniversary of the start of the *intifada* – the uprising in the occupied territories – with the deadliest attack so far on Israeli soldiers in the West Bank and Gaza Strip, writes Hugh Carnegy in Jerusalem.

The army said three reservists were killed when three Palestinians in a car raked their vehicle with gunfire as they were patrolling a road in Gaza busy with locals heading to work in Israel. The attack was the bloodiest incident in a surge of violence which has presaged the fifth anniversary of the *intifada*, which according to most Palestinians started on December 8, 1987.

Responsibility was claimed by Hamas, the Islamic fundamentalist group which was founded a few days after the uprising erupted and has become the second most popular group in the territories after the Palestine Liberation Organisation.

Army officials said it was the highest number of soldiers to have died in a single attack in the occupied territories since the *intifada* began. The authorities say Hamas, which is opposed to the Middle East peace talks, which reopened in Washington yesterday, is trying to upset the negotiations.

However, PLO factions which support the peace talks have also stepped up the use of guns in the *intifada*, which in its first three years was marked mainly by mass demonstrations and stone and petrol bomb throwing. Army figures show more than 340 shooting incidents this year, compared with 38 in 1988.

S African whites threatened

A black guerrilla group has declared war on white South Africans and threatened to kill government leaders including President F W de Klerk, Reuter reports from Johannesburg.

The South African Press Association said yesterday Mr Congo Jibril, a leader of the exiled Azanian People's Liberation Army (Apla), had told it the group would attack whites because they were "part and parcel of the oppressive regime". Right-wing white groups threatened attacks on the Pan Africanist Congress, Apla's political wing, and on "communist organisations".

Unita agrees to join government

Angola's Unita rebel movement agreed yesterday to join a government of national unity and respect a nationwide ceasefire, said its spokesman Mr Jorge Valentim, AP reports from Luanda.

The statement increased hope that the country may be edging away from civil war. Unita would accept assigned posts in the new government, he added.

Somali traders scent a bonanza when US troops arrive

By Julian Ozanne in Mogadishu

PRICES in Mogadishu's bustling street markets are rising and the Somali shilling appreciating as local businessmen scent a bonanza from the US troops poised to intervene in the war-ravaged country.

Big-spending American television networks have sent up to 150 journalists, cameramen and technicians into the country, and everybody who owns or controls something is cashing in.

Everything from car rental to housing, from the services of translators to armed guards riding shotgun on vehicles, has rocketed in price. Businessmen who have run Mafia-style *operations throughout the two-year* civil war expect a big pay-off from US military contracts. The Pentagon has estimated that the US operation will cost $300m (£197.3m) to $400m, although that figure could rise rapidly if the Americans get bogged down in a longer commitment than expected.

In a city where most buildings have been looted or destroyed, a rundown four-bedroom house with no running water or air conditioning, which cost $500 a month, is now up for rent at $3,000 to $4,000. A day's car rental, with two armed guards to fight off bandits and looters, has gone up from $50 a day to between $200 and $300. Fees for landing aircraft have also increased. The only things going down in price are guns - an AK47 Soviet-manufactured machine gun which cost SSh5m last month can now be found for SSh1m.

Journalists and aid workers have been almost the sole source of foreign currency coming into Somalia for the past two years apart from a few exports of looted telephone cables, copper wire from electricity lines and livestock.

The biggest import trade has been the leafy natural drug, *qat* – the amphetamine-like narcotic stimulant grown in Kenya which loses its potency within 24 hours of being picked. At least 40 private twin-engine bush aircraft fly from Nairobi to Mogadishu every day at a cost of about $2,500 per flight.

Diesel, cigarettes and even food *have been imported regularly*, mainly by businessmen through the southern port city of Kismayo.

Kismayo and the bulk of the commercial trade of the country is controlled by Mr Osman Artoh, the principal financier of Gen Mohammed Farrar Aideed, Somalia's main warlord. Aid ships trying to offload food at Kismayo have been regularly looted. But Mr Artoh has continued to bring in ships with cargoes of diesel and food without any problem. He has also been the main supplier of so-called "Mad-Max" trucks - four-wheel-drive vehicles with the tops sawn off and heavy calibre machine guns mounted on the back.

The Somali shilling, which had maintained a value of SSh7,500 to the dollar, *has strengthened in the last* day to Ssh5,500. With no banking system and no national mint, Somalia has had a fixed supply of banknotes except in the north of the city controlled by Ali Mahdi Mohammed, one of the rival warlords. Four months ago Mr Mahdi managed to import Ssh150bn-worth of new Somali banknotes printed in 1990 by De La Rue of the UK.

These circulate only in the 10-mile radius of territory he controls. If somebody is caught with the new notes in the south of the city, they could be shot on sight.

Racketeering and extortion have been part of Somalia's greatest problem in the past two years, and with the US intervention Somalis are determined to continue their thriving trade.

Takeshita under pressure to quit

By Charles Leadbeater in Tokyo

MR Noboru *Takeshita*, former Japanese prime minister, was yesterday facing mounting public pressure to resign from parliament after his second appearance to testify over allegations that an organised *crime syndicate* was involved in his 1987 campaign for the premiership.

Mr Takeshita is deftly denying the charges that he knew a crime boss acted as an intermediary to halt an embarrassing right-wing street campaign against him. In two hours of testimony to the parliament's upper house he reiterated that he would not resign because it would be seen as an admission of guilt.

However, Mr Takeshita is under pressure because of inconsistencies between his evidence and that of other politicians involved in the incident. He was forced to backtrack on earlier testimony and admit his office might have arranged two meetings with Mr Hiroyasu Watanabe, former president of the Tokyo Sagawa Kyubin courier company who is alleged to have enlisted the help of gangsters to quell the right-wing campaign.

Meanwhile, Mr Kiichi Miyazawa, prime minister, is due shortly to announce a cabinet reshuffle. It is thought to be a key test of how well Mr Miyazawa can handle the party and parliament without the backing of Mr Shin Kanemaru, the party king-maker who resigned from parliament in October after admitting accepting an illegal donation from Tokyo Sagawa Kyubin.

It is thought likely that Mr Michio Watanabe, an advocate of opening Japan's rice market, will remain as foreign minister. Mr Tsutomu Hata is expected to launch a new LDP faction if, as expected, he is replaced as finance minister.

Stock market watchdog shows its teeth

By Emiko Terazono in Tokyo

JAPAN'S Securities and Exchange *Surveillance* Commission, the new stock market watchdog, yesterday launched its first raid to crack down on illegal stock transactions.

At dawn, commission officials started a search of the office of Teishin Fudo, a small property company, the home of its president, Mr Makoto Araya, and Sumitomo Fudosan Finance, a financing affiliate of the Sumitomo group.

Teishin is alleged to have pushed up the stock price of Nihon Unisys, the 32 per cent-owned Japanese affiliate of the US computer group, by using some 30 different accounts at 20 brokerage houses during 1990 and 1991.

The commission, modelled on *the US Securities and* Exchange Commission, was set up last July after a spate of stock market scandals shocked investors, *fueling the fall* on the Tokyo stock market.

As television cameras rolled, commission officials raided Sumitomo Fudosan Finance. "We're the Securities Exchange Surveillance Commission!" shouted an official storming into the central Tokyo office as the media recorded the ceremonial raid.

The finance company extended an estimated Y55bn (£291m) to Teishin, and took Nihon Unisys shares as collateral. Sumitomo Fudosan Finance said it now regrett the "stupid" loan, but said had not known of Teishin alleged share cornering.

The commission is al investigating Mr Araya a Sumitomo Fudosan Finan for allegedly violating the r where holders of more than 5 per cent stake in a compa *are required to report this* the Ministry of Finance.

The Nikkei average fell 88 points to 17,207.12 yesterd in dull trading.

Japan's trade surplus grows but nature of the beast changes

The way export billions are recycled is undergoing a stressful shift because of bank weaknesses, writes **Charles Leadbeater** in Tokyo

JAPAN'S manufacturing industry is running up a huge current account surplus – one that is likely to continue, on current trends, for the foreseeable future.

Yet the offsetting process – outward capital flows that allow the balance of payments to balance – is reaching a turning point.

Last week the government *announced the* October current account surplus rose by 60 per cent from the same month last year to $11bn. The Bank of Japan *believes the trade surplus* will reach more than $120bn this year.

The scale may be familiar but the nature of the beast has changed since its last surge in the mid-1980s. Then export volumes rose strongly as Japanese manufacturers launched an assault on foreign markets. The surplus now is largely the result of higher prices for exports and lower prices for imports rather than a huge sales offensive in export markets.

Export volumes are growing at about 2.7 per cent a year. Most of the 9-per-cent a year rise in export value is accounted for by an increase in prices as a result of the strengthening of the yen against the US dollar and the development of more up-market Japanese products which command higher prices.

Import volumes have fallen as Japanese consumer spending has stagnated. Japan's import bill has been further cut by the fall in oil prices.

In the mid-1980s the trade surplus was recycled as an outflow of long-term capital from Japan: its institutional investors bought foreign stocks and shares; its manufacturers set up plants abroad; its real *estate developers bought large* swathes of property. At its height in 1989 this long-term capital outflow reached $122bn.

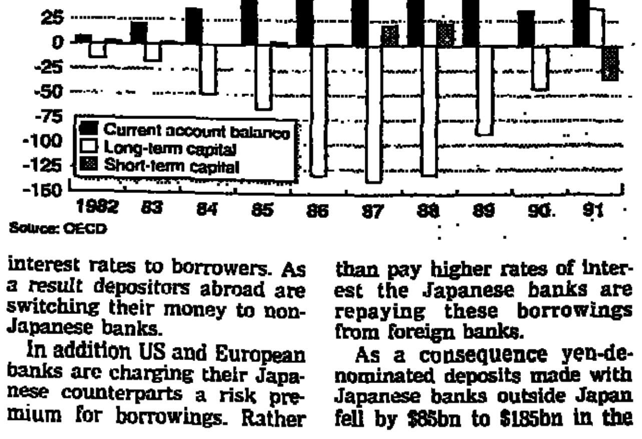
But last year long-term capital flowed back into Japan as its investors retrenched and foreign investors bought Japanese stocks which have plunged in price. The outflow of long-term capital has resumed but it has reached only $16bn.

The shortfall has been made up from two sources. *Short-term* capital outflows have reached $63bn so far this year. But the most important factor has been a series of *transactions buried within the* bank's accounts.

The Japanese banks are paying for their bad debts by boosting their profits through paying low interest rates to depositors and charging high interest rates to borrowers. As a result depositors abroad are switching their money to non-Japanese banks.

In addition US and European banks are charging their Japanese counterparts a risk premium for borrowings. Rather than pay higher rates of interest the Japanese banks are repaying these borrowings from foreign banks.

As a consequence yen-denominated deposits made with Japanese banks outside Japan fell by $85bn to $185bn in the year to July, while deposits *made in foreign currencies fell* by $70bn to $495bn over the same period. However the Japanese banks have barely reduced their lending to foreigners.



Source: OECD

By reducing their liabilities abroad – mainly deposits and borrowings from banks – and maintaining their foreign lending, the banks have created a short-term capital outflow large enough to recycle the trade surplus.

The problem is that this *source is drying up. The Japanese* banks have run down their foreign borrowings to a point where they do not have much left to play with.

That implies long-term capital will have to start flowing out of the country again to recycle the surplus. Yet all the channels seem to be clogged up.

Foreign direct investment by Japanese manufacturing companies is about 40 per cent down from 1990 with little prospect of it picking up. Japan's real estate developers are flat on their backs. All but two Japanese banks have withdrawn from long-term lending to overseas infrastructure projects. The scope for Japanese banks to recycle the surplus through "off-balance" sheet lending is limited, given the scrutiny they are under from international banking regula*tors such as the Bank of International Settlements.*

Japanese institutional investors could buy more foreign assets and foreign investors could sell out of the Tokyo market. That would scarcely be good news, however, since it might drive down the Tokyo stock market.

"The weakness of the banking system probably means will take longer and pro more difficult to arrange capital flows to offset the s plus. It will create a lot stress in the system," said senior official at the minis of finance.

That stress could *be alle*ated in several ways. A sha appreciation of the yen mig choke off the trade surplus a *make it more attractive* Japanese investors to put th money into foreign assets. F ther cuts in interest ra could stimulate bank lendin

An injection of public mo into the banks to help th sort out their bad debts mi encourage them to halt contraction of their inter tional activities. And the J nese government is likely come under international p sure to stimulate the econ to revive imports.

Experienced legislator is likely to fill top Treasury post

Bentsen ready to confound the sceptics

By Jurek Martin in Washington

EVEN before Mr Bill Clinton won the US presidency some of his advisers made no bones of their belief that the next Treasury Secretary should be capable of reassuring even the most sceptical in the financial markets that the administration would give priority to economic and fiscal affairs.

Although some backed Mr Paul Volcker, the former chairman of the Federal Reserve, every shortlist included the name of Mr Lloyd Bentsen of Texas, chairman of the Senate finance committee and as heavyweight a legislator as any in Washington in the last generation. The announcement of his selection now appears imminent.

To the wider public Mr Bentsen's reputation rests on one immortal sound bite. In 1988 he figuratively undressed Mr Dan Quayle in their televised vice-presidential candidate debate by interrupting his young opponent with the words: "I knew Jack Kennedy and, senator, you're no Jack Kennedy."

In the nation's capital, however, Mr Bentsen, 71, has long been known as a man to be reckoned with.

He arrived after beating an up-and-coming Republican, George Bush, in the 1970 Texas Senate race. He ran unsuccessfully for the Democratic presidential nomination in 1976, emerged unscathed from his performance in 1988 as Mr Michael Dukakis's running mate and was still mentioned this spring as a compromise candidate should Mr Clinton falter.

The Bentsen record in Congress is substantive, especially in the last six years as finance committee chairman. He may not be the "new kind of Democrat" Mr Clinton promised to bring into power, but no legislator knows more about the budget and taxation.

Like the president-elect, Mr Bentsen is a non-doctrinaire conservative on fiscal matters. He has always favoured business-related tax breaks, logically given his connections to the Texas oil and gas industry, but he was an architect of the 1990 Budget Act which produced the tax increase that, in the end, helped undo President Bush.

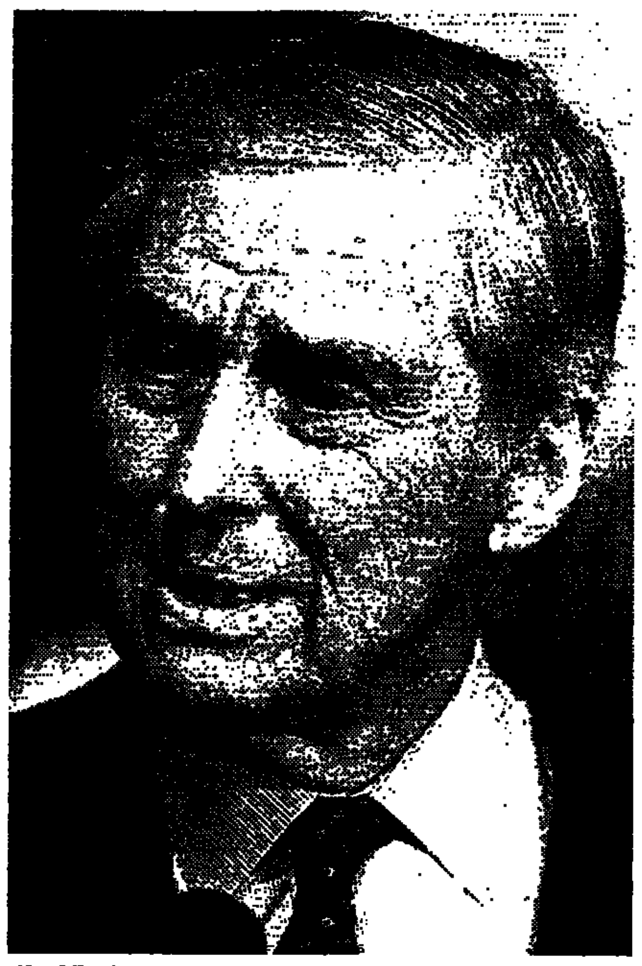
He also had a reputation as a closet protectionist. In 1988 he spoke of the need for a new relationship with Japan which might take away some of its competitive advantages.

If elected vice-president, he told the Financial Times that year: "I would not consider it beneath my office to push US products abroad." But he has been a careful supporter of the North American Free Trade Agreement, which is popular in Texas, although sceptical of the fast-track authority under which it was negotiated.

He has long fought for personal pensions, known as individual retirement accounts (IRAs), on the grounds that they offer the most workable solution to the country's savings shortfall. His proposal to extend IRAs to the 55 per cent of two-income families currently ineligible fell victim to Mr Bush's veto of the urban aid bill in October.

Still unanswered is why Mr Bentsen should want to sacrifice being a grand panjandrum on Capitol Hill, particularly if it means, as Governor Ann Richards of Texas has warned, the loss of his Democratic Senate seat.

Perhaps he was persuaded by the arguments that only he could break the gridlock between the executive and legislative branches. This must have been Mr Clinton's pitch, as it was from another old Texas friend, Mr Robert Strauss, now returned to Washington from the US Embassy in Moscow. They are a persuasive pair.



Lloyd Bentsen: a man to be reckoned with

Shots in war for Clinton's ear

By Michael Prowse in Washington

THE FIGHT for the soul of President-elect Bill Clinton has begun.

Yesterday the market-oriented Progressive Policy Institute, one of the Washington think-tanks closest to him, published "Mandate for Change", a 380-page tome billed, immodestly, as a "new governing philosophy for a new era in American politics".

In trying to set a governing agenda for the Clinton administration, the institute is following a trail blazed by conservative think-tanks, such as the Heritage Foundation, which heavily influenced the policies of Republican administrations in the 1980s.

"Mandate for Change" sets out detailed policy proposals on everything from economics and health care to crime and foreign policy and tries to define a new brand of "progressive politics" that transcends the old philosophies of both Democrats and Republicans. On many issues, however, it appears to lean heavily toward the kind of policies advocated by conservatives in the 1980s.

It favours tough controls on government current expenditure (as opposed to investment) and urges Mr Clinton to revitalise the economy by relying more heavily on free markets. It advocates reforms, stressing choice and competition in both healthcare and education, and proposes the phasing out of conventional forms of welfare.

The institute is an offshoot of the Democratic Leadership Council (DLC), a reformist group of moderate Democrats chaired by Mr Clinton from 1990 until his bid for the presidency last year. It has already established strong ties with the incoming administration.

Think-tank fires off proposed agenda for new administration

Mr Al From, DLC president, and Mr Bruce Reed, one of his deputies, are among Mr Clinton's top transition advisers. Mr Robert Shapiro, the institute's chief economist, seems likely to get a top economic post, probably at the Office of Management and Budget.

The cover of "Mandate for Change", moreover, carries a warm endorsement from Mr Clinton.

Mr From and Mr Will Marshall, the institute's president, argue that the Clinton administration should base its policies on five core principles:

- Opportunity: The old Democrat emphasis on redistribution must be dropped in favour of free market policies that stimulate growth and opportunity.
- Reciprocal responsibility: Right-wing social neglect and left-wing belief in "entitlements" are both misguided. They should be replaced by contracts which emphasise reciprocal responsibilities: the emblematic example is voluntary "national service" scheme under which college students would get subsidies if they agreed to serve the community, as, for example, police officers or nurses.
- Community: In social policy more emphasis should be placed on the "third sector" of voluntary organisations and on "empowering" families and individuals to solve their own problems.
- Democracy: In the aftermath of the cold war, the promotion of democracy and free markets should be the new unifying theme in US foreign policy. This offers the best hope of stabilising an uncertain world and in settling disputes nonviolently.
- Entrepreneurial government: The old model of centralised, top-down government in which monopolies offer standardised services no longer works. A radical revamping of the public sector involving the wholesale introduction of choice, competition and market incentives must form a central part of the Clinton programme.

"Mandate for Change" also sets out a detailed programme for rebuilding the US economy dubbed "enterprise economics." This seeks to transcend the 1980s stalemate in which conservatives tended to call for more tax cuts and liberals for increased government spending and regulation.

The institute argues that increased government spending is required in one area only: the "common economic resources that can enable all workers and firms to be more productive". It thus advocates increased federal support for education and training, research and development, national infrastructure and new business formation. The main innovation on training is the proposed issue of career opportunity cards, a kind of voucher that would give workers flexibility in purchasing education and training relevant to their advancement.

In most respect the economic policies proposed are free market in tone. The one equivocal note is in trade policy, where the institute advocates a "new commercial diplomacy" to expand trade opportunities aggressively that some may interpret as covert protection.

Opposition gains in Venezuela poll

By Joseph Mann in Caracas

VENEZUELA'S opposition gained a stunning victory in Sunday's state and local elections, winning a majority of seats for governors and mayors, according to preliminary results.

Voting took place peacefully, despite nervousness following a failed military uprising against the government on November 27. As usual, troops were posted at each of Venezuela's 8,000 voting centres to ensure order.

The governing Democratic Action (AD) party, which calls itself "the party of the people", was forced into a minority position in state and local polls for the first time in the country's 34-year democratic history. Despite efforts by AD leaders to distance themselves from the unpopular free-market policies of President Carlos Andrés Pérez, most Venezuelans rejected the party.

The main opposition force, the Christian Democrat Copei party, won heavily, and two left-wing organisations, the Socialist party MAS and Causa R, a militant group, also scored important victories.

The vote showed the strongest preference for left-wing candidates on record and suggested a weakening of the traditional two-party system dominated by AD and Copei.

Preliminary returns in state governorship contests give opposition parties a firm 14 out of a total of 22 states, compared with four for AD.

In Caracas, voters rejected the two main parties to choose a leftist as the capital's mayor, the private network Televen projected.

In 1989, when the last state and local elections were held, the governing party won 11 of 20 states (two federal territories have become states since then), Copei seven and MAS and Causa R one each.

There were no official figures on voter abstention, which reached 78 per cent in Caracas three years ago. Unofficially, voting authorities said they believed abstention was lower this time. Venezuelans are scheduled to elect a new president, national congress and state legislatures next December.

Offer due today on opening service industries to competition

Japan to lift more trade curbs

By Frances Williams in Geneva

JAPAN IS due today to present trading partners in the Uruguay Round of world trade talks with a revised offer to open up more than 100 service industries to greater foreign competition.

Japanese officials said the move was an attempt to speed the time-consuming country-by-country negotiations on liberalising individual service sectors, which have been slow to get going again since the Round resumed last month.

The substance, if not the legal drafting, of each country's initial market-opening commitments on services must be completed by the end of this year if the target set for concluding the six-year-old Round is to be met. An agreed schedule of commitments is a condition for joining the proposed General Agreement on Trade in Services, which will extend fair trade rules to services for the first time.

Some 60 countries (the European Community counting as one), accounting for more than 90 per cent of cross-border services trade, have made offers. But Japan's latest is the first to take the form of a draft schedule of commitments.

Under pressure from trading partners, Japan has improved its original offer made early this year. In particular, it has dropped two of the six areas initially proposed for exemption from Most-Favoured-Nation treatment.

Of the four that remain, the only one expected to come under challenge is that relating to legal consultancy services provided by foreign lawyers, where the US and the EC want Japan to drop reciprocity requirements.

Japan has not sought non-discriminatory Most-Favoured-Nation exemptions in financial services, such as banking, insurance and securities business.

However, both the US and EC judged the original offer inadequate and last October agreed a joint approach to squeeze better terms out of Japan and other Asian nations.

Israel hails Tokyo call on boycott

By Hugh Carnegy in Jerusalem

ISRAEL has warmly welcomed Japan's call for an end to the Arab economic boycott of the Jewish state. But a new trade dispute between the two countries has arisen over demands that Japanese exporters enter counter-purchase deals for Israeli goods.

Israeli officials described as very significant a statement late last week from the Japanese Foreign Ministry urging Arab countries to suspend the boycott following moves by Israel to freeze Jewish settlement in the occupied territories. They said it was the first time Tokyo had taken such a stance.

Israel has long accused Japan of avoiding trade with it for fear of jeopardising ties with the Arab world, especially oil supplies. It now hopes that a recent steady increase in Japan-Israel trade will grow more quickly, with its high-tech industries able to benefit from trade and joint ventures with Japanese counterparts.

However, no sooner have Japanese imports started to flow than Israel has complained about a lack of counter-purchasing. Last month, a senior official from the Japanese Ministry of International Trade and Industry warned that pressing the issue could halt the expansion of trade. But Mr Shimon Peres, foreign minister, will take it up when he visits Tokyo next week.

A big deficit with Japan worries Israel, which, until recently, ran a healthy trade surplus with it thanks to big exports of polished diamonds. But a surge in Japanese vehicle imports and a slump in demand for diamonds has meant that this year Israel will be some $200m in deficit out of total bilateral trade near $2bn.


Peres: pressure on Japan over counter-purchases

Japanese carmakers, led by Subaru, Mitsubishi and Daihatsu, now have about two-thirds of the Israeli market. Israel wants them to source some parts in Israel or counter-purchase other goods for sale in Japan. It has begun to exclude companies which do not comply from tenders for government vehicle purchases. With Israeli-Japanese trade now exceeding in value Japan's trade with countries like Denmark and Portugal, it believes it has some leverage.

France gives formal notice of its veto threat

FRANCE formally notified the other 11 European Community states yesterday it might veto a key farm trade deal with Washington which defused the threat of a transatlantic trade war and paved the way for a global free-trade accord, Reuter reports from Brussels.

Mr Roland Dumas, French foreign minister, entered in the minutes of a meeting of EC ministers a declaration saying France would defend its "very important interests".

The statement implicitly recognised that EC governments were likely to have to decide on the farm trade deal alone.

"France considers the draft farm agreement struck on November 20 1992 by the [European] Commission representatives [with US negotiators] goes beyond the mandate set by the Council [of EC ministers]... and would have unacceptable consequences for France's agricultural economy," the statement said.

France considered the draft to be "incompatible" with the Common Agricultural Policy and said that if the Council of Ministers had to take a position on such arrangements, Paris would oppose it to safeguard domestic interests.

Talks on rice ban to open in Washington

By Charles Leadbeater in Tokyo

THE Japanese government is taking its first step to open talks with the US and EC over the country's ban on rice imports, a potential stumbling block to successful completion of the Uruguay Round under the General Agreement on Tariffs and Trade.

Mr Masami Tanabu, Japanese agriculture minister, will leave Japan today for talks in Washington with Mrs Carla Hills, US trade representative, and in Brussels with Mr Ray MacSharry, EC agriculture commissioner.

Mr Jean-Pierre Leng, EC ambassador in Tokyo, called on Tokyo yesterday to lift its ban on rice imports and ease import restrictions on European farm and leather products. Mr Frans Andriessen, the EC external affairs commissioner, is to visit Tokyo next week for talks on trade issues.

Mr Tanabu will reiterate his government's opposition to replacing the outright ban on imported rice with a system of tariffs, and will ask for rice to be exempt from Gatt provisions. However, the trip is mainly designed for domestic political consumption by farmers who provide vital electoral support for the ruling Liberal Democratic party.

The government is intent on showing the farmers it is doing everything possible to maintain the ban. However, it is believed a majority of the LDP leadership recognises that eventually the government will have to compromise on the rice issue.

The government is keen to delay a decision on the issue for as long as possible. But US and EC negotiators are likely to put pressure on Japan by telling Mr Tanabu that Tokyo's acceptance of tariffs would be a precondition for full multilateral talks to open in Geneva later this month.

Mr Tanabu will also report to Mr Kiichi Miyazawa, the Japanese prime minister, on the state of negotiations between the US and EC over agriculture and other issues.

Andes nations regain a taste for free trade

Raymond Colitt on the revival of a moribund pact

AFTER more than half a century of protectionism, trade barriers continue to tumble across the Andes. Even the Andean Pact, moribund for 23 years, is enjoying a revival, despite a rupture of diplomatic relations between Venezuela and Peru where President Alberto Fujimori suspended Congress in April.

In October, tariffs between Ecuador, Colombia and Bolivia were abolished and Venezuela is scheduled to join the free-trade zone in January.

Peru, despite suspending its membership of the five-nation pact until December 1993, is meanwhile negotiating bilateral free-trade agreements, including one recently signed with Ecuador.

The Group of Three, a trade group comprising Mexico, Venezuela and Colombia, is also said to be ready to admit Ecuador, which is meanwhile talking to Chile about free trade.

Years of political struggle and protectionism among member countries have given way to unprecedented co-operation and trade liberalisation.

Economic necessities have sidelined many ideological struggles and the geo-political competition of the cold war.

As Mr Mauricio Pinto, Ecuador's minister of industries and commerce, explains: "We decided to take a risk. Rather than seeing the dangers of trading with a more developed economy such as Colombia, we began seeing the opportunities. If Mexico was seeking free trade with an economic power like the US, then it was because they saw opportunities of growth."

Mr Pinto claims: "No other trade agreement in the world has established as open and unregulated a trade as the one between Ecuador and Colombia."

Scepticism and fear of being swamped by Colombian imports is gradually subsiding among some Ecuadorean manufacturers.

Companies in both countries are beginning to restructure their operations in response to the trade liberalisation.

Critics of the free-trade area had feared Ecuador's industries would be hard hit by Colombian imports.

But Mr José Peñaherrera, the under-secretary of foreign commerce, says the now obsolete maximum tariff of 20 per cent had not protected the industrial sector. He adds that labour and business management alike support trade liberalisation.

The impact of freer trade may be less than implied by the official statistics. According to the official figures, Ecuadorean imports from Colombia in 1991 were, at $94.5m, three times its exports to its larger neighbour.

But Mr Luis Ornando Diaz, an economist at the ministry of commerce, industry and integration, estimates that contraband is three to four times the size of legal trade. Mr Peñaherrera says: "Informally there already existed a free-trade zone with Colombia."

Ecuador's relatively low labour costs give the country an advantage in some of its export industries. Ecuador exports mainly traditional goods to Colombia: canned sardines, fish meal, vegetable oils, synthetic yarns and aluminium tubes, among others.

One Ecuadorean company that is responding to the challenges and opportunities of the new free-trade area is Textiles San Pedro. Specialising in high-quality carpets and industrial yarns, the company has modernised its machinery and opened distribution centres in Colombia. Mr Alberto Sánchez, general manager, says with these measures and access to the Colombian market the company hopes to double its current annual production of 200,000 blankets by next year.

Ecuador has even started exporting cars – the sub-compact model built by Suzuki in Ecuador, although in modest numbers at first.

Although the trade figures will increase markedly as previous contraband is encompassed by the figures, actual intra-regional trade is not expected to rise sharply.

There are also some non-tariff barriers that will take time to be removed. According to Carlos Guzman of the Ecuadorean Export Federation, the impediments include poor communication and transportation links between member countries as well as a corrupt customs officials.

Mr Pinto insists that the common external tariff set by the Andean Group – in four bands ranging from 5 to 20 per cent – is not protectionist. The tariff, averaging about 10 per cent, does not impede trade with non-member countries, he says.

In addition, trade negotiations between the Andean Group and the G3, as well as with Chile, provides opportunities for liberalising and increasing inter-bloc trade.

Mr Pinto stresses that the Andean Pact has boosted Ecuador's international negotiating position enormously. The size of Ecuador's economy on its own is of little interest to countries such as Mexico or Chile, but the Andean market as a whole is a far more attractive negotiating partner.

According to officials, the prospects of further integration among the relatively compatible Andean economies are good. Future efforts of the Andean group will focus on accommodating Peru and improving communications and transportation to facilitate the exchange of goods and services.

Government may ease rail privatisation conditions

By Richard Tomkins, Transport Correspondent

THE government yesterday gave the clearest indication yet that it was prepared to bend its rail privatisation plans to make them more attractive to would-be train operators.

It said it was ready to drop its insistence on open access and allow operators effective monopolies on some lines, particularly British Rail's Network SouthEast commuter routes.

It also opened the door to the possibility that some companies would be allowed "vertically integrated" franchises which allowed them not only to operate trains but also to control tracks and stations.

These hints of a shift in approach follow strong criticism of the privatisation plans from some private sector companies which have expressed an interest in operating trains.

The Department of Transport wants as many companies as possible to become involved in bidding for passenger train franchises, so that privatisation will be seen as a success.

Mr Roger Freeman, minister for public transport, emphasised that the government remained fully committed to rail privatisation. Legislation was ready to be introduced as soon as the necessary paving bill had cleared the Commons, he told a conference in London organised by The Economist.

However, royal assent would come in October rather than the summer, and it would be a long time before franchising spread to all of British Rail's services.

Publication of the rail bill is expected to form part of a vigorous campaign by the government to defend its privatisation plans at the beginning of the new year. Other announcements will include the publication of the track charging regime and the naming of the first half-dozen or so experimental rail franchises.

Mr Freeman said he recognised that some private sector operators might be reluctant to bid for franchises unless they were exclusive. But on some routes, it would be impossible for other operators to set up in opposition because there was no spare track capacity.

"The reality is that on Network SouthEast the franchise will effectively be on an exclusive basis, Mr Freeman said – though that might not apply to Regional Railways or InterCity routes.

Mr Freeman said the government had not ruled out the idea that some franchisees might be allowed control of signals, track maintenance and development of stations.

Mr Freeman also announced that the government had no plans to franchise out the operation of the channel tunnel express trains due to enter service between London, Paris and Brussels in 1994.

Speaking after the conference, Mr Freeman rejected suggestions that the introduction of track charging would result in the large-scale transfer of freight from rail to road. But he added: "I am not prepared to say that every last single consignment of freight currently running on BR's tracks will survive".

Insurers seek plan to cover bomb blasts

By Richard Lapper and Jimmy Burns

BROKERS at the Lloyd's of London insurance market are working with industrial risk managers on a new plan to provide insurance protection against terrorist damage, which they hope to present to the government this week.

Insurers announced last month that new commercial insurance policies would probably exclude cover for terrorism from January 1. But so far, the government has not responded to pleas to extend the Northern Ireland compensation scheme – which directly meets the cost of bomb and other terrorism damage – to the mainland, leaving industry potentially unprotected from the IRA's mainland bombing campaign.

The new proposals have been developed by the Association of Insurance and Risk Managers in Industry and Commerce (Airmic), and the Lloyd's Insurance Brokers Committee (LIBC). Insurers would be asked to continue to offer insurance cover for terrorism, but offload their exposures into a reinsurance pool, funded from reinsurance premiums and possibly jointly managed by brokers, insurers and insurance buyers.

The government would be asked to reinsure all claims over an upper annual limit – probably about £200m. Mr Fleming of Airmic said government and insurance industry participation were essential. "What is so worrying is that it is taking so long to get a scheme in place," Mr Fleming said.

Airmic and the LIBC say they have the backing of Mr John Greenway, MP for Rydale, and chairman of the all-party committee for insurance and financial services. They also hope to persuade Lloyd's to back the plan.

Meanwhile, American International Group, the New York-based insurance group, has asked a team of anti-terrorist and bomb disposal experts to carry out risk assessments of buildings belonging to clients in the City before extending cover under its sabotage and terrorism policy.

Mr Ian Harrison, AIG's senior underwriter for special risks in the UK, said his company planned to make such surveys a precondition before extending cover on a "stand-alone" or specific-risk basis to prominent locations that may be potential terrorist targets in the UK.

Computer unit saved by HK-link

By Michiyo Nakamoto

INMOS, the UK-based semiconductor company, is forming a new company with QPL International Holdings, a Hong Kong based manufacturer of electronic components, which will enable it to keep open its South Wales factory which had been on the brink of closure, with the loss of 220 jobs.

The new company, Newport Wafer Fab, will be 70 per cent owned by QPL and 30 per cent by Inmos, which is a wholly owned subsidiary of SGS-Thomson, the Franco-Italian semiconductor group. The Welsh Office is providing Regional Selective Assistance.

The deal is indicative of the tremendous growth of Far Eastern companies in the electronics industry. QPL expects to create 280 more jobs over the next three years and more than treble annual output at Newport by 1996.

QPL will offer semiconductor foundry services to companies which design semiconductors but do not own a manufacturing facility. It has foundries in the US and in Japan. In the 1991-1992 period, QPL, a subcontractor of Inmos and SGS-Thomson, increased turnover by 44 per cent to over HK$1,000 million, with profits over HK$ 171m.

Kenneth Carlisle, transport undersecretary, at yesterday's launch of this year's drink-driving campaign. The number of deaths in drink-drive road accidents has more than halved since the early 1980s, from 1,670 in 1982 to a provisional 700 in 1991, according to government statistics. "We have changed attitudes, but figures show we still have some way to go," said Mr Carlisle

Heathrow Express threatened

By Richard Tomkins

MR JOHN MacGregor, transport secretary, is to meet British Rail and BAA, the airports group, on Thursday in a last-ditch attempt to rescue the £300m Heathrow Express project.

Plans for the 16-mile rail link between Heathrow airport and central London are on the brink of collapse amid a bitter dispute between British Rail and BAA over funding.

If Mr MacGregor cannot persuade the two sides to reach an agreement in the next few weeks, the project is likely to get caught up in the government's plans for the privatisation of British Rail and could be postponed indefinitely.

The Heathrow Express, intended to speed passengers between central London and Heathrow in 16 minutes, is being developed jointly by BAA and British Rail. The plan is for British Rail to carry trains on existing tracks for three-quarters of the journey. A private consortium headed by BAA would build and operate a spur to the airport.

BAA said British Rail was undermining the viability of the project by demanding too high a price for the use of its tracks. "The bottom line is that if the operating costs are too high, then it simply won't be possible to get third parties involved in putting their money into the railway." BAA said.

British Rail said the sum it was asking – about £6m a year – represented only between 11 per cent and 12 per cent of forecast revenues. If BAA was serious about proceeding with the project, British Rail said, it would have to make a contribution to the operating costs out of its own resources. The outlay would easily be recouped by increased profits at Heathrow, British Rail said.

Borrowing adds to patchy picture of recovery

By Emma Tucker, Economics Staff

BORROWING by British consumers picked up in October, adding to patchy evidence that a recovery in retail sales is underway.

Official credit business figures yesterday showed that consumers borrowed a net £76m in October, reversing two successive months of net repayments. New credit advanced by British finance houses, building societies and on bank credit cards was a seasonally adjusted £3.84bn, down from £4.37bn in September.

This figure was in line with market expectations, but the growth in net consumer credit surprised economists. They had forecast a rise of only £20m.

The drop in new credit advanced means the rise in net borrowing reflected a slower rate of repayments by consumers rather than a big rise in the number of new debts taken on.

Although this latest figure is encouraging and will fuel expectations that the economy is slowly recovering, it is too early to say that the trend in consumer borrowing is upwards.

In the three months to the end of October, consumers repaid a net £20m compared with net borrowings of £91m in the three months to the end of July and the monthly growth of £76m compares with growth of more than £200m per month at the end of 1990.

In any case, the figures from the Central Statistical Office account for only about 15 per cent of total private sector debt, as they do not include mortgages.

The increase in net credit advanced in October followed net repayments of £36m and £60m in August and September respectively.

● The Central Statistical Office has plans to aim its press releases at wider audiences, and increase the analytic content of its press releases.

Treasury names dissident economic forecasters to advise government

By Peter Marsh, Economics Staff

THE UK Treasury last night named three arch-dissidents of the economics profession in its panel of private sector forecasters which is to advise the government on the economy.

In a development expected to lead to greater openness in UK economic policmaking, the panel is to include Professor Wynne Godley of Cambridge University, Professor Patrick Minford of Liverpool University and Professor Tim Congdon, managing director of Lombard Street Research. The three are among the Treasury's biggest critics of the past few years.

Also included on the panel will be Mr Andrew Britton, director of the National Institute of Economic and Social Research, Professor David Currie, head of economic forecasting at the London Business School, Mr Gavyn Davies, chief UK economist at Goldman Sachs, the US investment bank, and Mr Andrew Sentance, economics director at the Confederation of British Industry.

Professor Godley has warned for 20 years of structural problems in the UK economy resulting from due to the lack of a sufficiently competitive manufacturing sector.

Prof Minford, a prominent monetarist economist, said: "I am willing to give it (the panel) a try and see what happens."

The panel will meet three times a year and give Treasury officials a wide-ranging briefing.

The discussions will be be chaired by Mr Alan Budd, the Treasury's chief economic adviser. A report drawn up by Treasury staff on the meetings will be published soon afterwards, after having first been cleared by Mr Norman Lamont, the chancellor.

Directors' pay rises expected to slow to 4%

By Catherine Milton, Labour Staff

COMPANY DIRECTORS' pay rises have averaged 5 per cent in the last 12 months and are expected to slow to an average of 4 per cent in the next year, according to what is believed to be the largest survey of directors' pay to date.

The survey - published in the wake of the government's appeal to senior executives to award themselves low pay rises and its announcement that public sector workers face a pay ceiling of 1.5 per cent - shows 16 per cent of directors expect no increase.

IoD corporate affairs director, Mr Blenyth Jenkins, said: "It is clear from this survey that the large and apparently unjustified increases which have recently attracted so much media attention are wholly unrepresentative."

The survey of more than 6,000 directors, conducted by the Reward Group and the Institute of Directors, shows that women directors averaged 7.1 per cent pay increases over the same period but continue to earn less than their male peers.

Pay for managing directors working in London is nearly 20 per cent above the national median while their counterparts in the South West are paid 13 per cent below the national median.

More than half of all directors received pay rises of 5 per cent or less and 35 per cent had rises of 4 per cent or less. Of these, 14 per cent received no pay rise at all and 1 per cent accepted pay cuts.

The number of directors driving company cars has dropped from 84 per cent to 79 per cent over the last 12 months, with 37 per cent of all directors driving cars with 3,500cc engines.

Pay appears to increase with company turnover and individual responsibility levels. Managing directors of companies with turnover of more than £200m are paid an average of £107,500 plus a bonus worth £18,000. More than 90 per cent have a company car with nearly 70 per cent driving Jaguars.

The average salary for managing directors of companies turning over between £20m and £250m is now £78,045 plus a bonus worth £11,000. More than 95 per cent have a company car - 29 per cent of them Jaguars.

Managing directors of companies with turnovers of up to £25m are paid an average of £46,000 plus a bonus worth £6,800. More than 95 per cent have a company car with 13 per cent driving Mercedes.

Precision approach to keeping market share

Paul Cheeseright looks at a company coping with the recession

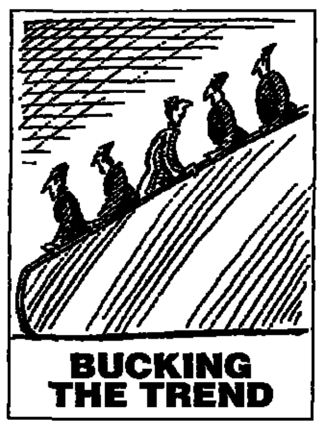
Stainless Metalcraft seems to have experienced the economic cycle the wrong way round.

In the second half of the 1980s, when many were enjoying what Mrs Margaret Thatcher saw as an economic miracle, company profits were dropping like a stone. Now, in the depths of recession, profits are rising sharply.

As if to commemorate the change, the company is giving itself the new name of Ferraris. This may not strike a chord among the few who trade its shares on the unlisted securities market, but the cognoscenti of the medical equipment market will recognise it. So will those who use its asthma monitoring equipment.

More than that, the new name is testimony that the company has manoeuvred itself into the medical equipment sector, dropping, for example, general contracting engineering. "You attack a market which is there, rather than one which is disappearing," says Mr Kenneth Baker, chairman - a veteran engineer who cut his professional teeth at Metal Box and subsequently worked in US, German and other British groups.

In the financial year to last August, Stainless Metalcraft, having made losses in three of the four preceding years, turned a somersault and had pretax profits of £353,000. There should be more this year and the company has Singer & Friedlander, the merchant bank, helping it in a search for acquisitions.



The losses were the result, says Mr Baker, of "a self-inflicted wound". Stainless Metalcraft was a sub-contractor to a sub-contractor on a storage system for British Nuclear Fuels waste. It was an abnormally large contract for the company: the work was delivered on time but getting paid turned into a welter of argument and arbitration.

By the time the matter was settled, the management had become hardened to adversity and the recession had started. Stainless Metalcraft felt it early, "when people started to reduce capital spending which was our area of business", as Mr Baker put it.

The company's strategy was, in short, "to get out of metal bashing" and to develop the company along the lines of precision engineering "with wider shareholdings and wider interests," recalls Mr Baker.

The wider shareholdings meant diluting the interest of the Childs family, which now stands at 25 per cent. The development meant driving the company into higher value-added, higher technology, higher quality products in the medical equipment area. Ferraris Instruments had been bought in 1986. Production settled at sites in Chatteris, which generates around 70 per cent of turnover, Kettering, north London and Ohio in the US.

"All through the recession, the company has continued to invest in production equipment and the development of new products," says Mr Baker.

The biggest customer is Oxford Magnet Technology, part of Oxford Instruments, for which Stainless Metalcraft has been making components for scanners and co-operating on design and manufacturing technique.

The result has been that the value of output for each Stainless Metalcraft employee has risen over the last three years to £58,000 a year from £35,000. There is another side: as is usually the case with manufacturing investment, the more that is invested the less the employment. At Chatteris 150 people now have jobs, in 1988 there were 350. Further, the company is on a financial tightrope. There are no complaints about banks in the boardroom.

Shift from "metal bashing" has been a success. Pictured is Michael James, group financial director

"We needed a lot of support to enable us to stand our corner," says Mr Baker. It still does. Support came from Barclays, with a generous overdraft facility and a term loan, as the percentage of debt relative to net assets went up from 70 in 1989, to 95 in 1990, and then to 154 in 1991, before coming down to 98 in 1992 - "a parlous state of affairs for a manufacturing company," concedes Mr Baker. Ferraris, then, has to keep a steady balance to stay on the tightrope. Still, there is some stability in the medical equipment market. Demand has kept up, despite recession, but, Mr Baker says, "there is pressure to keep down prices. If you can maintain your competitiveness, you can maintain your market share".

Britain in brief

Consortium buys Jensen car company

Jensen Car Company, past purveyors of hand-assembled sports motors to the rich, is passing out of the hands of Grant Thornton, the receivers, to a consortium of English businessmen for an undisclosed sum, it was announced yesterday.

The nameless consortium is planning to resurrect the Jensen Interceptor - a new version of which was announced early this year and which found one customer - and install at the Jensen factory in West Bromwich, in the English midlands, a new industrial division making patented DIY household products under licence.

Fresh Lloyd's action likely

Fresh legal action at Lloyd's of London is likely following a meeting yesterday of some 600 Names, individuals whose assets support the insurance market.

The Names are among 4,018 members of Merrett syndicate 418, angry about losses of at least £132.4m from the 1985 underwriting year.

The syndicate's accounts for the year have not been closed as claims continue to emerge, many of them stemming from US liability business reinsured by the syndicate between 1978 and 1983. Names are being asked to raise up to £4.4m to finance the action against the Merrett managing agency, their members' agencies and the syndicate's auditors, Ernest & Whinney.

Warning on research cash

The Department of Trade and Industry is warning Britain's research organisations unofficially that it may not be able to give out any new research grants or contracts until April 1994, because the £110m-a-year DTI innovation budget has been overspent.

Mr John Bennett, secretary general of the Association of Independent Research and Technology Organisations, said some of his 36 member companies have "expressed very serious concern" about the impact of such a long moratorium.

Several research organisations were expecting to receive new DTI funds next year to replace expiring contracts. If these do not arrive they will have to lay off scientists and engineers. During a prolonged recession it is almost impossible to attract new industrial funds to replace lost DTI grants.

Big gas users warned on bills

Large industrial users of gas could end up paying higher bills as more competition is introduced into the UK gas market, Mr Ian Powe, chairman of the Gas Consumers council warned yesterday.

British Gas's agreement with the Office of Fair Trading to halve its share of the industrial gas market in the next three years could see the company substantially raising the price of its cheapest gas, Mr Powe said. This is the gas sold to its largest customers on interruptible contracts - which means British Gas can cut them off at short notice.

Competitors have shown no interest in entering the interruptible gas market since it offers low profit margins.

Fimbra may face critics

Fimbra, the self-regulatory body for independent financial advisers, is expected to come under criticism at its annual general meeting today over the presentation of its financial position in its accounts.

Mr Michael Bryant, marketing director of Rathbone Brothers, the banking and asset management group, said he would question the board on the accounts recently lodged with Companies House.

"These are accounts that Fimbra would not allow from its own members," he said.

BUSINESS AND THE LAW

Court highlights danger of default


EUROPEAN COURT

Irish fishing rules containing residence and nationality conditions were declared unlawful last week by the European Court of Justice (ECJ) in a judgment which clarified the extent to which an EC state may be liable to individuals for breaches of obligations under Community law.

Although the Irish rules were revoked nine months before the judgment, the ECJ ruled that there was still an interest in pursuing the action in order to establish the basis of liability which could be incurred by a member state which was in default of its obligations, either towards the community, another member state or private parties.

C 280/89: Commission v Ireland, ECJ FC, December 2 1992.

Implementation date crucial for direct effect

EC citizens can only rely on provisions in Community directives in cases before their national courts once the date for their implementation has passed, the ECJ ruled last week. The case involved the 1980 directive on protection for salaried workers against the insolvency of their employers which did not have to be implemented by member states until October 23 1983.

Italy failed to implement the provisions of the directive in time. The applicants all left their jobs due to non-payment of their salaries. Their employers were all subsequently declared to be insolvent but at dates before October 23 1983. The applicants sought to rely on the provisions of the directive for protection of their rights.

The ECJ held that as the relevant acts of insolvency all took place before the directive had to be implemented, the provisions of the directive could not be relied on by the applicants.

Joined cases C-140/91, C-141/91, C-278/91 and C-279/91: Suffritti, Fiori, Giacometti, Dal Pane and Bailetti v Instituto Nazionale della Providenza Sociale, ECJ 1CH, December 3 1992.

Milk quota decisions

The ECJ was asked in two cases to decide issues arising out of the Community rules relating to milk quotas.

In the first, an Irish farmer had agreed not to market milk for five years. Some years after the expiry of this *undertaking*, he increased the amount of land he farmed. He then asked for a milk quota from the Irish authorities. A quota was awarded to him, but based on the amount of land he had operated at the end of the five-year marketing ban. He brought an action against this decision, claiming to be entitled to a quota based on all the production units operated by him, including those on new land.

The ECJ held the relevant Community provisions allowed for account to be taken of production units added to a holding after the end of a non-marketing undertaking and before the provisional decision of the authorities, provided that the original holding operated at the time when the undertaking was entered into was still being operated in whole or in part by the producer concerned.

In the second case, a German farmer who had been granted a milk quota sought to have it increased on the grounds that he had bought more land. At the time of purchase, the land had been subject to an undertaking to convert from dairy cows to cattle, but which now could be used for dairy production. The German authorities disallowed this request on the grounds that he already had a quota.

The ECJ held that the Community rules which disallowed an ordinary quota producer from benefiting from the special quota rules applicable to conversion undertakings were unlawful in that they breached the legitimate expectations of the producer concerned.

C-86/90: O'Brien v Ireland, the attorney-General and the minister for agriculture and food, ECJ 3CH, December 3 1992.

C-264/90: Wehrs v Hauptzollamt Luneburg, ECJ 3CH, December 3 1992.

Other cases

A national decision could not be the subject of judicial review under the Rome Treaty rules, the ECJ held. The correct forum in which such a decision should be investigated was the national court.

C-97/91: Oleificio Borelli Spa v Commission, ECJ 5CH, December 3 1992.

The Rome Treaty rules of non-contractual liability covered acts of the European Investment Bank, as well as the other EC institutions.

C-370/89: SGEEM and Roland Etroy v European Investment Bank, ECJ FC, December 2 1992.

BRICK COURT CHAMBERS, BRUSSELS.

Competition for fairness

Robert Rice explains why the UK government is about to change the law on anti-competitive behaviour

Last week's announcement by the UK government that companies indulging in anti-competitive behaviour may shortly be liable to swingeing fines looks like good news for small and medium-sized businesses struggling to get a toehold in the market.

Mr Michael Heseltine, the UK *trade and industry secretary*, launched a green paper setting out three options for a change in the law covering abuse of market power. At first sight, he appeared to be addressing a relatively minor problem, judging by official statistics of the number of investigations into alleged abuse by individual companies in recent years.

The Office of Fair Trading has investigated just 35 complaints of *anti-competitive behaviour by a* dominant company under the terms of the 1980 Competition Act. In 13 cases the complaint proved unfounded. In a further 10 the dominant company gave undertakings not to reoffend and in 10 instances the case was referred to the Monopolies and Mergers Commission for a full investigation. The MMC also carries out between six and 12 monopoly investigations each year under the 1973 Fair Trading Act.

The problem, however, may be much larger than appears from the statistics, according to Mr Michael Reynolds, a partner in City law firm Allen & Overy. Many companies believe that they have to live with a dominant supplier and it is better not to rock the boat, he says. Others may view the present UK regime as so ineffectual that it is not worth complaining to the OFT.

The current UK system is weak on deterrents. There are no financial penalties, and injured parties have no right to sue for damages. A business accused of anti-competitive behaviour will not be penalised until it has been investigated by the competition authorities and has subsequently broken undertakings not to offend again.

The system is slow and cumbersome. By the time the authorities decide a monopoly is operating against the public interest or a company *is guilty of anti-competitive* behaviour, the victim may have been forced out of business.

In addition, companies that feel they are the victims of anti-competitive behaviour face considerable difficulties in persuading the authorities to investigate.

They need evidence not only of abuse but also of intent. Without some form of documentary proof that the dominant company is deliberately trying to stifle or eliminate competition, the authorities are unlikely to act. In almost all significant European cases on the abuse of a dominant position, proof of intent has been found by the commission.

Proving a refusal to supply or the existence of an unlawful tied-product agreement is relatively straightforward, but establishing that a dominant company is deliberately pricing its product at less than cost in order to squeeze the competition out of the market is more complex.

Although predatory pricing has not been much of an issue in the UK, it could now become more of a problem. Privatisation, particularly of the utilities, could alter how such

The three options for change

- Retain existing case by case approach under 1973 Fair Trading Act and 1980 Competition Act for dealing with anti-competitive practices. OFT to have stronger investigatory powers. Businesses liable for damages and possible civil penalties for continuing abuse.
- Introduce general prohibition on abuse of market power backed by tough investigatory powers and fines up to 10% of worldwide turnover.
- Introduce prohibition, tough investigatory powers and financial penalties, but retain monopoly investigation provisions of Fair Trading Act


Michael Heseltine
President of the Board of Trade

too interventionist a stance could hamper the vigorous competition between companies which competition policy is designed to promote.

Following the European Court decision last year in the Akzo case, when the Dutch chemical company was fined Ecu7.5m for predatory pricing, it is clear that pricing at below average variable cost by a dominant company in order to eliminate a competitor will be treated as

The problem is deciding where to draw the line between legitimate response to new competition and unlawful action

behaviour is defined.

The government has stated that the utilities should not be placed in a more favourable position than other parts of industry. But, at the same time, it acknowledges they should not be penalised for doing something such as cutting prices which they are specifically authorised or required to do under their regulatory regimes.

The problem in predatory pricing cases is deciding where to draw the line between legitimate response to new competition and unlawful action. Competition authorities know that too lenient an approach would make it easy for dominant firms to eliminate competition. But

unlawful. The Court also ruled that pricing below total cost but above average variable cost would be treated as abusive where it was part of a campaign aimed at eliminating a competitor. But that left a grey area where prices are set between variable and total cost and there is no discernible campaign to drive a competitor out of the market.

The extent to which businesses find themselves under scrutiny for alleged predatory practices or other anti-competitive behaviour will depend on how dominance is defined under the UK's new law.

The UK currently takes a broader approach than the EC to the definition of market power. A business is deemed to have a simple monopoly if it has 25 per cent of the market, irrespective of whether it has real market power. In Europe actual dominance – the degree of market power which allows a company to operate without taking into account the activities of its customers or competitors – is the issue.

The Commission takes the view that a dominant position exists when a business has at least 40 per cent of the market and its rivals have significantly less. Other factors such as barriers to entry for new competitors are also relevant.

The UK government has indicated that if it opts for a general prohibition on abusive market behaviour it will look at the feasibility of extending the prohibition to catch abuse *by companies with a lesser degree* of market power than is implied by the EC's 40 per cent test. Significant technical and legal hurdles would have to be overcome, but if the UK succeeded in making any company with a market share of a minimum 25 per cent liable for anti-competitive practices, the impact on UK industry could be far reaching.

Mr Reynolds' advice to companies which suspect they may be treated as dominant under the new regime is to give serious consideration to the adoption of a competition law compliance programme. Companies inclined to dismiss such advice as not entirely disinterested, or tempted to ignore the dangers of falling foul of a new prohibition system should take a look at the recent case concerning Tetrapak, the Swedish packaging group, he says.

Last year the Commission fined Tetrapak a record Ecu75m for abuse of a dominant position following a complaint by one of its competitors. Few industries can afford to take fines of up to 10 per cent of turnover in their stride. But if a company breaches the law the existence of a compliance programme can be a significant mitigating factor in the level of fine imposed, he adds.

The consultation period for the new UK legislation, which will almost certainly be included in next November's Queen's Speech, runs *until the end of February. There is* little doubt that the government and the UK competition authorities favour the third option. But it is equally clear that running two systems in parallel – the EC's general prohibition while retaining the monopoly provisions of the Fair Trading Act – could lead to considerable confusion and uncertainty for industry.

For many businesses, knowing how and against what criteria their behaviour will be judged is the most important factor. Option two, which would bring UK practice more closely into line with EC competition rules, offers the greatest degree of certainty.

LEGAL BRIEFS

Discontent among the judges

London's commercial court judges and leading City institutions are continuing their unprecedented joint campaign to persuade Lord Mackay, the Lord Chancellor, to appoint more commercial judges.

Mr Justice Saville, head of the Commercial Court, has been joined by City institutions such as the Baltic Exchange in warning that the shortage of judges threatens London's future as a leading centre for commercial litigation.

The shortage of judges has led to severe congestion in the timetable of commercial cases, says Mr Justice Saville. Unless this is speedily remedied, he says, foreign companies could turn to other countries such as Hong Kong and Singapore to settle their commercial litigation. That would result in the loss of hundreds of millions of pounds in invisible earnings for the UK.

The Lord Chancellor has stated in parliament that he is aware of the problems caused by the shortage of commercial court judges. He has given an assurance that two posts currently vacant will be filled as soon as possible. Mr Justice Saville is not convinced.

Costly data

The Confederation of British Industry has warned that the new European Community directive on data protection will cost British businesses millions of pounds in unnecessary compliance costs. The employers' organisation says the level of data protection in the UK under the 1984 Data Protection Act is adequate. The CBI says it would make more sense to impose the UK's tough data protection rules on EC countries which lack such legislation rather than impose the directive's high level of protection, which may actually impede cross-border data flow.

MANAGEMENT: THE GROWING BUSINESS

Lessons in new language of VAT

With less than a month to go until the launch of the European single market, companies are still attempting to modify their value added tax accounting procedures, writes Charles Batchelor.

From January 1 border controls and customs posts will be replaced by a system whereby companies record their own VAT information and compile their own trading records.

A range of manuals and guidebooks has been produced to help companies understand and implement the changes. They include: Guide to the Single European Market*, a booklet from Tetra, a software company. This provides a brief introduction to the new system and explains the terminology that is being adopted.

A Guide to UK VAT & Customs Procedures for the Single Market† by N Mohr and I Wardleworth provides a full account of trading procedures, VAT, trade statistics and excise questions. It describes existing systems of customs clearance, the changes which will occur and includes a glossary of terms and extensive lists of useful addresses.

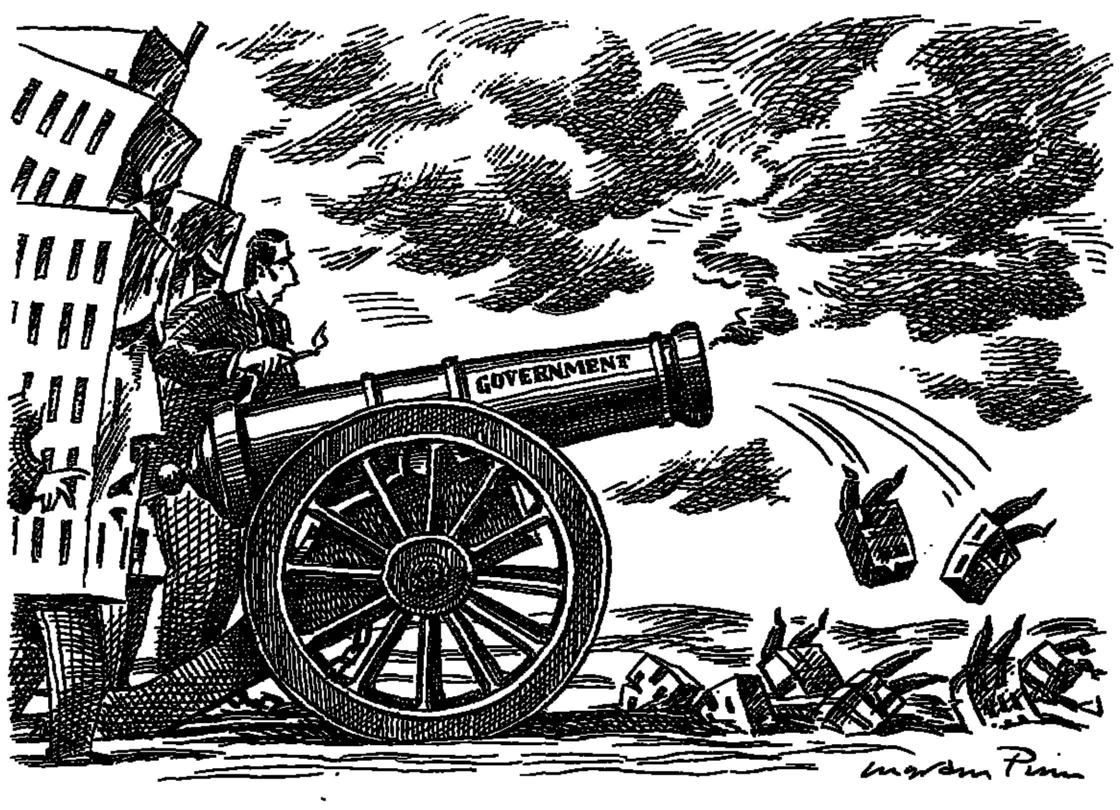
The VAT Accounting Compliance Manual†† from ITMP Business Information Services and the London Chamber of Commerce, is intended more for information technology and financial managers than for general management.

It takes a "system audit" approach, leading users through a series of questions on areas such as sales order processing, sales ledger reporting and inventory-work in progress. Appendices list VAT rates throughout the EC, European VAT numbers and reporting thresholds.

**Tetra Ltd, Pre-Sales Department, The Cynosure Centre, Vanwall Business Park, Maidenhead, Berks SL6 4UB. Tel 0628 770939. Free. †Mohr & Associates, 15 Cyprus Road, London N3 3SD. Tel 081 349 4434. £20. ††London Chamber of Commerce, 69 Cannon Street, London EC4N 5AB. Tel 071 248 4444. £395. See also this page October 13.*

Academics believe it may be time to shift resources from encouraging start-ups to supporting established businesses. **Charles Batchelor** reports

Thinking the unthinkable



Do small firms make a significant contribution to the economy or has their role been overstated? Are we doing too much – and not, as is often claimed, too little – to help them?

Such unthinkable challenges to the enterprise orthodoxy of the 1980s are now being raised with increasing insistency.

Further evidence of a questioning of accepted attitudes emerged at the 15th National Small Firms Policy & Research Conference held in Southampton at the end of last month. Several of the 60-plus, mainly academic, papers reflected a shift away from the idea of encouraging more start-ups and towards support for the established, if still small, firm.

Should we abandon support for start-up businesses? asked David Storey, director of Warwick University's Small- and Medium-Sized Enterprise Centre. Putting public money into encouraging more start-ups was less cost-effective than helping established small firms grow faster, he argued.

Much funding for start-ups was wasted because very small, new businesses were more likely to fail while only a small number would generate jobs in any number. The problem for policy-makers was to identify which would be successful. "In short, assistance to start-up businesses is a lottery," Storey concluded.

Even if successful small businesses could be identified in advance they might not be the best means of promoting economic growth.

Policy-makers had taken the mistaken view that by stimulating new businesses they would promote greater wealth and more jobs, Storey said.

But while Britain experienced a far greater increase of self-employment in the 1980s than other developed countries – and created more new businesses than most of its international competitors – there was little evidence that this had any impact on total employment.

Britain should shift its business support policies away from start-ups and towards growing businesses, Storey suggested. Since picking winners at the start-up stage was difficult, government policy should target businesses between three and five years old and with at least 20 employees.

A similar questioning of the contribution of small businesses to the US economy was carried out by Paul Joyce and Adrian Woods of the University of North London.

They looked at 40 years of data on the US economy from 1946 to 1986. In the mid-1940s businesses were being set up at the rate of 133,000 a year; by 1986 the annual rate was 700,000.

But were small firms saving the US economy? the researchers asked. Business start-ups had increased at a time when the performance of the US economy was deteriorating. Corporate profits fell as a proportion of gross national product and net exports declined as a share of profits.

At face value, the growing importance of small businesses did not seem to do much for the US economy's overall health, though it could be argued that things would have been worse but for the growth in new businesses, they acknowledged.

Why did this happen? The two authors looked at the role of small businesses and concluded that in periods of growth, often connected with increases in the availability of consumer credit, small firms exploited new market opportunities or acted as a target for acquisitive larger companies.

In a recession they provided a lifeline for unemployed executives or "salvaged" markets and resources abandoned by large companies.

But new firms created in periods of boom might then hold back economic growth over the longer term because they would be more likely to fail and come to represent a wasted capital investment, the authors suggested.

One of the main UK schemes launched during the 1980s to reduce unemployment levels and boost new business starts, the Enterprise Allowance Scheme, may have contributed to a waste of resources or at least not have made the best use of resources, according to Nigel Meager from Sussex University's Institute of Manpower Services.

Schemes similar to the EAS were launched in many European countries in the 1980s. Some were focused on the long-term unemployed or other disadvantaged groups while others were more general in scope.

Some provided an income over a period of time while others gave participants a lump sum at the outset.

The German *Überbrückungsgeld* support scheme insisted that participants should be capable of generating reasonable minimum levels of income from self-employment, while the EAS in Britain appeared to accept that many participants would earn very little.

This approach led to criticism of the EAS for encouraging the unemployed to enter low-margin, highly competitive sectors where they had little chance of survival or where they would make life difficult for already-established self-employed people.

A study of the hairdressing and beauty sector showed that the "displacement" effect was nearly 100 per cent.

Schemes which provided an initial capital subsidy to participants were more likely to encourage people to set up in markets with higher initial barriers to entry but with better long-term prospects for earnings and survival.

Participants in the British scheme tended to be concentrated in activities such as car repair, hairdressing, distribution, hotels and catering.

In contrast, the French *chômeurs créateurs* scheme, which provided an initial capital sum, led to the setting up of a much larger number of manufacturing businesses.

Since responsibility for the Enterprise Allowance Scheme has been handed over to the Training and Enterprise Councils many have brought in different criteria for allocating EAS places. But more needed to be done to provide support for the "mature" small business, according to David Smallbone of Middlesex University.

Forty-five per cent of the businesses surveyed by Smallbone had made no use of external sources of help over the previous 10 years. Of the remainder very few made regular use of outside assistance. While the larger, more successful firms did make more use of outside consultants there was some evidence of a "support gap" and of unexploited potential.

Help for established businesses needed to recognise their more specialised requirements, particularly in areas such as marketing or planning, which involved far-reaching changes in the business.

Smaller businesses frequently had problems implementing consultants' recommendations so consultants needed to establish a longer term relationship. Consultants must develop the skills for dealing with smaller clients, Smallbone said.

Small business academics frequently complain that policy-makers ignore their findings when devising new initiatives. But the government's plan for a nationwide network of business advice centres, unveiled last week, does reflect changing priorities. The new one-stop shops will concentrate their activities on helping established small firms.

Ethics arrives on enterprise agenda

Ethics has long been regarded as a concern of large companies, but increasingly it needs to be taken seriously by the smaller firm, according to several conference papers.

They may have to deal with a competitor who is unfairly disparaging their products to gain business, with an employee who has been diagnosed as being HIV positive but did not disclose this to the company, or with a customer copying designs without permission.

Unlike a large company, the small firm may not have a policy thought out to deal with these questions or experienced, specialist staff.

Instead of starting from scratch, small businesses should be able to call on the expertise of large companies, argued Derek Archer of consultants Archer & Archer. He suggested the creation of a register of ethical management practice which would allow small businesses to consult a large company which had experience of the same problem.

Far from being remote from the concerns of small businesses, ethical questions have a direct impact, according to Ian Smedley of the Institute of Directors. Individual moral responsibility can be clearly seen in the small firm and the entrepreneur's personal moral decisions will be fundamental to the attitude and activities of the business.

Ethical conduct can be enforced by the operation of self-interest which ensures that businesses co-operate with each other by behaving honestly.

Companies which develop bad reputations tend not to flourish while successful reputations and brands are valuable assets.

Business needs rules not because it is inherently a less ethical activity but because it is competitive, Smedley argued. It may, however, need to set limits to the application of ethical goals.

If businesses accept ethical constraints on their activities and acknowledge special responsibilities to stakeholders or the community this may have a negative effect on performance. They may well end up harming the general good rather than advancing it.

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- Turnover of approximately £4 million per annum.

For further information contact the Joint Administrative Receiver, Mick McLoughlin, KPMG Peat Marwick, St Nicholas House, Park Row, Nottingham NG1 6FO.
Tel: 0602 483444. Fax: 0602 483401.

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Mr. Pearse Farrell, Farrell Grant Sparks, Molyneux House, Bride Street, Dublin 8 Ireland. Tel: 010-353-1-758137 Fax: 010-353-1-752044	or	Mr. Declan McDonald, Castlecomer Woodwork Company Ltd., Castlecomer, Co. Kilkenny. Ireland. Tel: 010-353-56-41255 Fax: 010-353-56-41113

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The bids will be unsealed before the Athens notary public Adriani-Dimitra Zafiropoulou-Economopoulou, at 18 Voukourestiou Street, Tel. 30-1-36.18.249, on Monday 14th December 1992 at 10.00 hours.

This announcement is being published in the newspapers APOGEVMATINI, EXPRESS, MESIMVRINI and FINANCIAL TIMES, in which the original call to tender was published on 10th and 11th November 1992. The same terms as are mentioned in the original announcement apply.

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TECHNOLOGY

Della Bradshaw describes how digital mapping systems can help companies win new business

Redefining the boundaries

With the decline of coal as a fuel for heating Britain's homes, Northern Electric, one of Britain's privatised regional electricity companies, has a once in a lifetime opportunity. "We have to convert these homes to electric central heating," says Ian Homer. "If we don't, gas will."

Such commercial urgency has given a fillip to Homer's business area. At Northern Electric, he is the engineer responsible for geographical information systems. Otherwise known as digital mapping systems, these bring maps to life on a computer screen.

His department is now considering how to overlay marketing information on those maps, which cover 14,500 square kilometres of north-east England from Northumberland to North Yorkshire. The result would be to convert a system designed for maintenance and emergency use into a marketing tool for winning new business.

The marketing data, garnered from a survey of the local electricity users, has meant Northern Electric can identify homes which need central heating, a new washing machine or a dishwasher. But the marketing department cannot identify which areas have the electricity infrastructure to supply the extra power needed to run them. This information is stored on the GIS, appropriately named Iliad. The Iliad may have been a saga of gloom and doom but, says Homer, "we hope to re-write the history book".

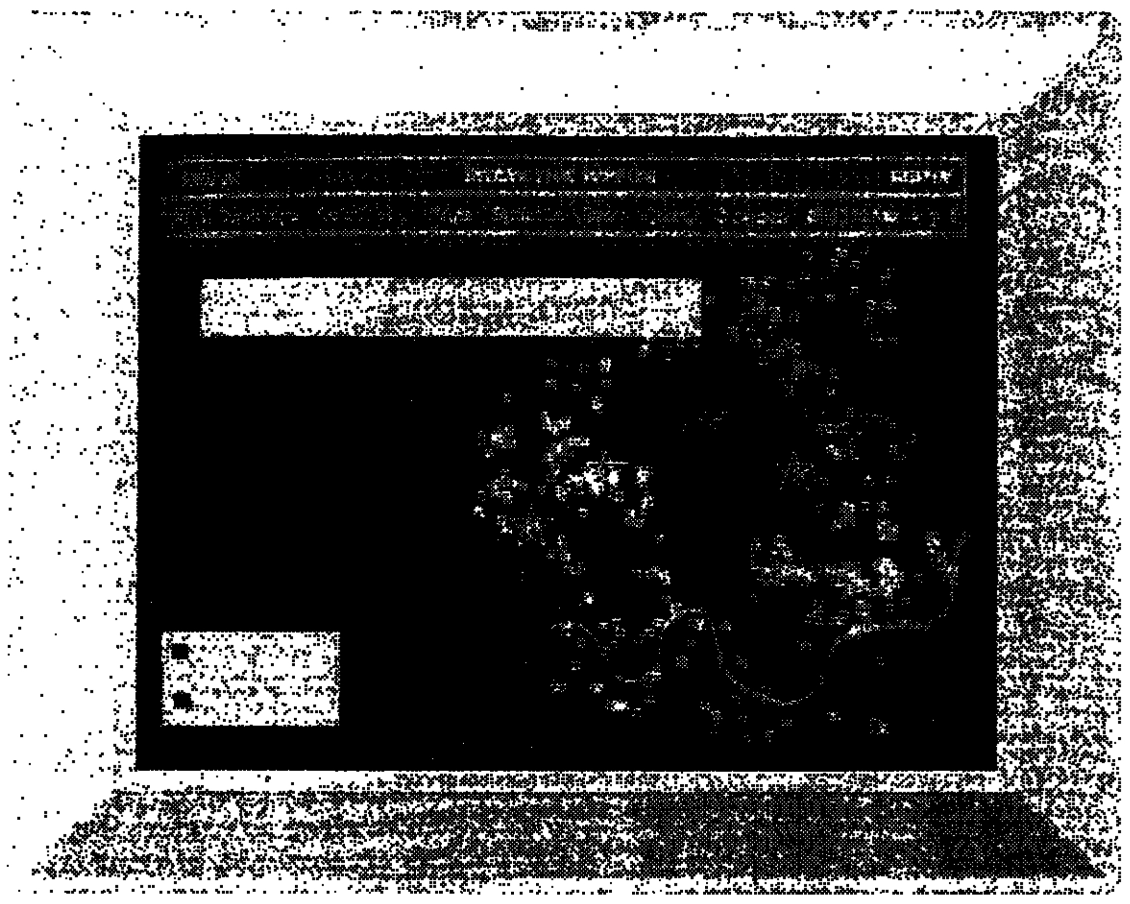
Such optimism about the power of digital mapping systems has fired Britain's utilities, with gas, water and electricity companies switched on to their uses. But compared with the US, take-up in industry and commerce has been patchy.

Although the cost of hardware has dropped in recent years – the minimum requirement for a GIS department is a large screen and colour graphics, says Richard Green, director of sales and marketing at equipment supplier Smallworld – digital maps are expensive.

"A company our size has to put £1m into maps before we even start," Homer points out. "And that is for data we've already got in paper map form."

On top of that is the question of copyright. In addition to the purchase costs, Northern Electric has to pay royalty fees for using the data. That comes to a further £250,000 to £300,000 a year – the equivalent of 25p for each of its 1.4m customers, and up to three times what it costs for paper maps.

This royalty figure is agreed between the utility and the Ordnance Survey, the prime source of mapping information in the UK, on the basis of the number of times the customer is likely to use the maps.



Although the bulk of users – not unpredictably – believe that the up-front purchase cost of these maps is too high, they acknowledge that the OS has to answer to government in fixing these prices. The government requires that the OS recoup 70 per cent of the costs of maintaining and digitising the maps from sales. And by 1997 all the OS's costs will have to be met from commercial ventures.

But on the question of paying for the copyright, there is much debate. Gurmukh Singh, chairman of the Association for Geographical Information, believes royalty payments should be removed completely. He likens the situation to books or records: users pay once for buying them but are not charged for every time they listen to the record or read the book.

Others, such as Alistair Keddle, GIS mapping services manager for Imass, part of Northumbrian Water, believe it is the mechanism for charging which is "extremely subjective" and therefore at fault because companies cannot predict costs. "Many people can see clear benefits in digital mapping, but when they put up a feasibility study they have to show the capital costs and the operating costs," he points out. "In the present scenario we are very much in a haze as to what operating costs will be."

Dissatisfaction is compounded because for many existing users the OS map is just a background on which assets are placed. "We use the map as a reference point for placing our assets and to get the spatial links," says Keddle. "In essence, we could then switch off the map. It's irrelevant."

The question of copyright becomes even more confused as this happens. If a utility annotates a map with its own data, who owns the resulting product? "It's a question which will keep the lawyers alive for many years," jokes Homer.

Keddle believes that the existing approach will force companies to go to other sources for their data – aerial photos, say – which could in turn prove to be to the detriment of the archive material and eventually jeopardise the future of the OS.

The OS acknowledges it has an image problem among its biggest customers and has frozen prices for digital maps. But copyright, says Peter Wesley, head of marketing, is a particularly vexing question.

To do away with the rolling copyright charges, as Singh suggests, would result in what Wesley calls "boom and bust" economics. "The issue is money today as against money in the future," he says. In addition, Wesley points out, a single digital map could be used by a large utility with 30,000 computer terminals or a small surveyor's office with a single PC, and to charge them the same would be unfair. As a result, he believes that the OS formula of a standard fee enhanced by the number of terminals on site is as equitable as possible.

The OS is looking for other ways to increase its revenues, notably through growth in the market. To that end, the OS is planning to get together with other companies to market products based on its digital maps. One particular scheme under consideration is to build a PC-based product using a less detailed version of the OS digital maps.

Such systems, from companies such as Logica Industry or Pinpoint Analysis, are already proving popular where highly detailed OS maps are not required – with retail outlets or banks which want to know where to site their latest megastore or cashpoint machine, for example. The sources of their geographical data are companies such as the street map producers or the Automobile Association.

Axa Equity & Law, for example, is using a PC-based mapping system to help bring together customers and financial advisers. By plotting the postcode of the customer on to a map already annotated with the whereabouts of the agents, the nearest agent can be found. "I doubt whether we could have undertaken this exercise without the use of GIS," says Graham Taylor, database marketing manager at the financial services company.

Because Axa Equity & Law only needs to match customers and agents across a relatively wide area – within a town, say – the level of detail provided by a PC system is adequate.

Suppliers overcome the copyright problem by licensing their digital maps in the same way as traditional software. A single PC licence would be issued for a single user or a site or multi-site licence for more general use, says Berry Winter, associate director at Pinpoint.

Only with these PC-based systems will there be an explosion in digital mapping, believes Bob Walters, GIS group manager at Logica Industry. "The explosion will come when the casual guy can get access to market research information on a wide area network to his PC. And that is seriously starting to happen now."

Technically Speaking

High costs wipe GIS off the map

By Alan Cane

"Geographical information systems, one of the most promising developments in information technology in recent years, are failing to fulfil their commercial potential in the UK. A primary cause may be the government's attitude to the price of information, which is biased towards recovering the total cost of collecting and disseminating the data.

This contrasts strongly with the situation in the US where the price of information collected by government agencies is related only to the cost of dissemination and is, for the most part, copyright free.

The consequence, as a study* by Michael Blakemore, senior lecturer in geography at Durham University and Gurmukh Singh, chairman of the UK Association for Geographic Information, points out, is a healthy GIS industry in the US while its UK equivalent is failing to thrive.

GIS is an analytical tool of remarkable power which has applications throughout government, business and industry. The systems ally the processing and imaging power of the computer to physical maps and survey data. Cross relationships between many kinds of data can be investigated and analysed in spatial terms.

An example of the kind of question which is particularly well suited to analysis by GIS is the provision of hospital beds in the London area. Existing provision can be mapped against a variety of factors – incidence of disease, general practitioners' prescribing patterns, social security benefit payments, housing and so on.

The UK position on charging seems to derive from the "Rayner" doctrine of the 1980s, interpreted as meaning that the collection of statistics was primarily for government use and that other organisations wishing to use the data would have to pay the full cost.

Earlier this year, however, Norman Lamont, Chancellor of the Exchequer, made it clear that official statistics were produced not just for the government but for the benefit of business and the public at large. He did not, however, indicate any change in charging practice.

In the US, Blakemore and Singh argue, low-cost dissemination of information has had a positive effect on the US economy. They give as example the Tiger project developed by the US Bureau of the Census. A computer mapping file of boundaries, roads, transportation, rivers and so on, it was designed to save costs in the enumeration of the US Census.

It is available at low cost and free of copyright; some 71 companies are already indicating interest in offering value-added products based on the data. Blakemore and Singh argue: "It is highly unlikely that, even reducing for size of economy, the UK 1991 Census will stimulate such a level of activity and this lessens the opportunity to employ more people and to create more tax revenue."

While there are arguments to be made on both sides of the equation, it does seem that charging full cost for the raw material of GIS is misguided.

First, the information has already been paid for out of public funds and only the cost of further dissemination should have to be recovered – even in the depth of a recession.

Second, there are concerns among GIS providers that government departments could compete against them with the opportunity to use their privileged position unfairly.

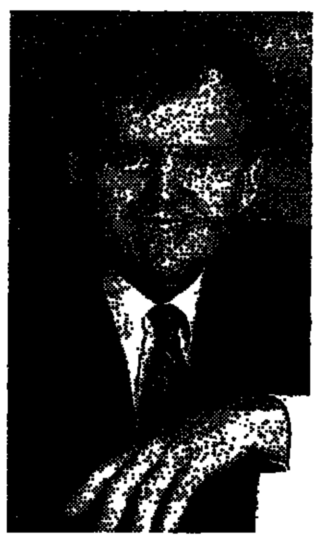
Third, the market will be seriously skewed if the price of information is set by cost recovery targets rather than by what the market will bear.

The argument is not only about fair treatment for GIS companies, however. GIS is one of the critical IT disciplines and not one in which the UK should allow its skills to deteriorate or lie fallow. Market testing of the collection of government statistics could be a first step towards the level playing field.

**Cost-Recovery Charging for Government Information: A False Economy?*

PEOPLE

Two 'very strong contenders' for Marley



David Trapnell (left), a main board director of building materials group Marley, has leap-frogged group managing director John Castle to become group chief executive with effect from the beginning of next year. Since 1989, Sir George Russell had combined the roles of executive chairman and chief executive, but the company says it had always been intended he would relinquish the post of chief executive when a suitable successor was found.

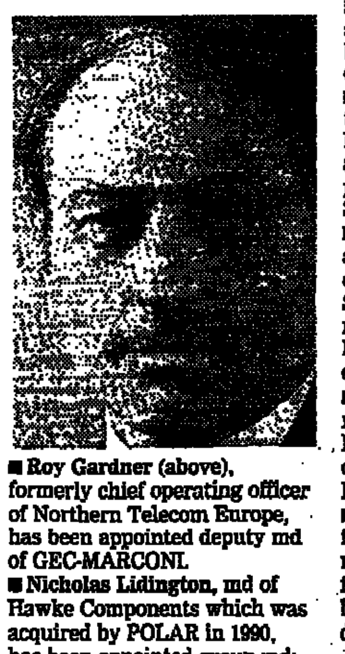
Trapnell's appointment follows a period of considerable boardroom upheaval. In mid-1990, John Castle was elevated to his present position, prompting the departures of Keith Howell, then finance director, and another board member Mike Moxon. Now Castle, 47, who had been running the day-to-day operations and to whom Trapnell, also 47, reported, is leaving Marley.

Chris Beenham, the current finance director, describes Trapnell and Castle as "both very strong contenders. One had to be chosen". Trapnell has distinguished himself in rationalising the UK building product companies against the background of an extremely difficult market, according to Beenham. He had also been responsible for the French building companies.

With the company since 1971, Trapnell joined as a factory manager on the roof-tile side. Apart from three years in California between 1979-1982 setting up a roof-tile operation there, he has been based in the UK, and was brought on to the main board in 1989. Castle, who joined Marley in 1986, also joined the board in that year.

At the same time, prompted by the Cadbury recommendations on corporate governance, Gary Allen, chief executive of IMI, has been made deputy chairman, a new position "created to reflect the fact that he is the most senior of the non-executive directors," says Beenham. He adds that Sir George, who has just been appointed a non-executive director of Taylor Woodrow, will remain executive chairman "for the foreseeable future".

Electronic switches



■ Roy Gardner (above), formerly chief operating officer of Northern Telecom Europe, has been appointed deputy md of GEC-MARCONI.

■ Nicholas Lidington, md of Hawke Components which was acquired by POLAR in 1990, has been appointed group md; Gary Spinks, formerly technical director of Polar Electronic, is appointed group technical director.

■ Bob Illingworth has been appointed to the new position of director of quality of UNISYS.

■ John Bunce has been appointed md of Softlab Ltd, a subsidiary of the Munich-based Softlab GmbH, a subsidiary of BMW.

■ Bridget Blow, formerly a director of FI Group, has been appointed systems director of ITnet.

■ Mike Watson, formerly md of BICC Technologies, has been appointed divisional director for high technology at OASiS; Nigel Vince is appointed to the main board.

■ Hugh McCartney, formerly a vice-president of Ingres, has been appointed UK md for GUPTA EUROPE.

■ Terry Reynolds, formerly technical director at Granada Information Services, has been appointed director of ESTS, part of Enterprise Computer Services.

■ Richard Guy has been appointed executive chairman of SHERWOOD COMPUTER SERVICES following the retirement of Bob Thomas; he is replaced as group chief executive by George Matthews.

■ Ian Jackson, formerly managing director of Logica Finance, has become executive director, finance sector of HOSKYNS GROUP.

■ Andrew Chard (below), formerly general manager, marketing for NCR's UK financial systems division, has been appointed divisional director marketing for NCR.

Calor resignation

Alistair Pate has resigned as finance director of Calor Group, the container gas company, with effect from the end of the year. His resignation is a consequence of the reorganisation of the group – completed earlier this year – which involved a substantial reduction in the number of headquarters staff, following the company's decision to move accounting and customer service functions to six regional offices.

Pate's day-to-day responsibilities will be assumed by John Taylor, group financial controller who is also financial director of Calor Gas, the company's main UK subsidiary.

■ Paul Vickers, assistant md and company secretary of TV-am, has been appointed company secretary and group legal director of MIRROR GROUP NEWSPAPERS; he will remain company secretary of TV-am until that company's next agm, expected to be in March 1993.

■ Ray McGee has been promoted to sales director of P&O CONTAINERS EUROPE responsible for the UK and the Republic of Ireland. Barry New has been promoted to sales director for the Mediterranean area; based in Milan.

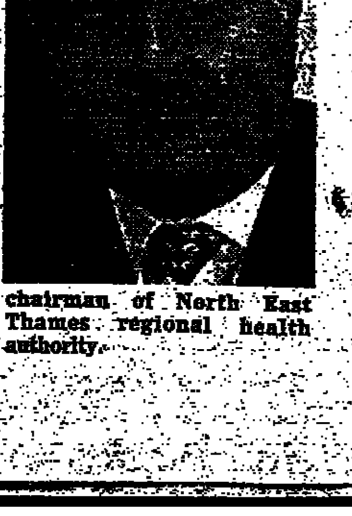
■ Bill Ross, formerly chief executive of Inter-Hotels, has been appointed marketing director of the ROYAL AGRICULTURAL SOCIETY OF ENGLAND.

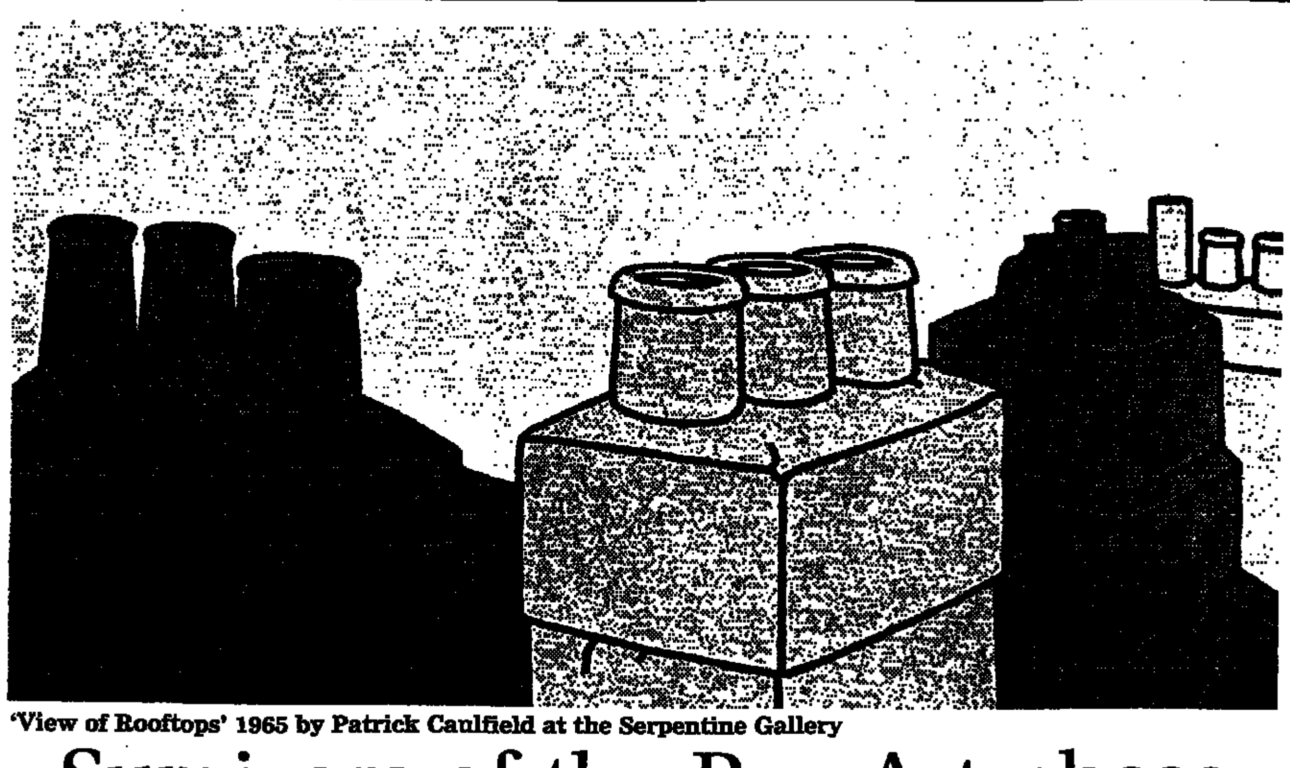
Haines for hospital trust

Michael Haines, a senior partner with KPMG Peat Marwick, is to become chairman of the Royal London hospital trust in January.

The Royal London, the biggest hospital in London's east end, has survived the government's Tomlinson review which will lead to widespread hospital closures in the capital. Under the Tomlinson proposals, services of St Bartholomew's in the City – which is recommended for closure – would be amalgamated with the Royal London.

Haines, 56, lives in east London and is deputy chairman of the Hackney Business Venture. At the Royal London, he will succeed Sir William Staveley, who has been appointed chairman of North East Thames regional health authority.





'View of Rooftops' 1965 by Patrick Caulfield at the Serpentine Gallery

Survivors of the Pop-Art phase

William Packer on the work of Patrick Caulfield and Tom Phillips

Is it a symptom of the fading year, or something more particular, that affects me every autumn in after the Turner Prize? The fatuity of the conventional assumption that the new is necessarily better than the well-established, that the avant-garde position is the infallible mark of originality and achievement, that the young must ever be encouraged, is increasingly borne in on me. The young, like the poor, are always with us and need no encouragement.

Patrick Caulfield, who is now 56, first attracted critical notice some 30 years ago, along with Hockney, Boshier, Jones and Blake, as a leading light of the young Pop-Art movement. Since then, Pop-Art has come and gone, but Caulfield has gone steadily on, quietly developing in his work and maturing as an artist. It is a truth too often forgotten that, beyond their immediate convenience, such general groupings mask great divergences and contradictions. The more we look into them at a decent distance, the more they fall apart or fade away. With Pop-Art, the whole was always less than the sum of its parts. Yet within its broadly accepted range of interests, Caulfield found the formal material and expressive means that have sustained him ever since.

The obvious comparison is with the two Americans, Andy Warhol and Roy Lichtenstein, artists, as is the American way, of infinitely larger international reputation.

All three drew upon a similar stock of imagery, second-hand imagery taken from magazines and newspapers and distanced from immediate experience by process and technology. What these artists share is an ironical and dispassionate approach to the treatment of that material, more or less uninflected on the surface, disinterested and ambiguous in its engagement with experience. All three are stylists, dandies, aesthetes.

The difference is that, as the two Americans became ever more decorative and superficial in their work, relying on gratuitous effects of scale or subject or conceptual context, Caulfield remained, and remains, close to his original subject, which is the still-life.

The equivalents of the Caulfield office desk, the hotel bar or lobby, the full plate on the table, the awful currency of polite taste and modern design, have been the stuff of still-life through the centuries. The difference is only that his is an image of an image of reality, and an idealised reality at that, which he then puts through the several hoops of graphic and painterly mannerism. He does so with a consummate elegance, linear severity held in counterpoint with photo-realist particularity, the broadest scale with the closest focus.

Do we begin to see a certain uncertainty, a hint of self-doubt creeping into the more recent work, with its drop in scale, its increased abstraction and concern with textured surfaces? The hope must be rather that Caulfield, with all his true artfulness, does not withdraw into the merely arty, self-referential and solipsistic.

If only he would bring himself to subsume his cleverness, his art-historical and stylistic knowingness, which will never leave him, in the scrutiny of what is really there before him – the room, the plate, the glass, the flower on the table.

Tom Phillips is 55, and had he come to his vocation a little sooner – he digressed to Oxford – he too would be considered still a Pop artist. As it is, his public debut coincided with the short-lived ascendancy of photo-realism on the one hand, and with conceptualism on the other – the idea itself that is the realised work of art – which two disparate *isms* he has so often sought to reconcile in his work.

As with Caulfield, the work is nothing if not a contrived and self-conscious artefact, meticulously executed, the difference only that Phillips has none of Caulfield's easy elegance. But there are other virtues; his intelligent persistence and technical application are no less admirable. Such difficulties as there are rise less from what the works are as from their subject, which has always been centred upon the artist himself, whether examining the processes of his own art, or his own life.

It was perhaps a mistake to give over an entire gallery to the extended "Curriculum Vitae" sequence, which is nothing less than an autobiographical text, and was shown in any case at the National Portrait gallery three years ago. This is manifestly a grand public statement, and Phillips' best work has always been the more intimate and personal, and that which is more speculative and open in its handling.

Here it is salutary to see how well so much of the early work stands up, that had seemed fussy, over-literary and unpainterly in its time – the park benches and the reworked post-card sequences especially. And the "Humument" too, that jokey, quirky, sly, inventively deconstructive annotation of the novel of 1892, *A Human Document*, by one W.H. Mallock, seems fresher than ever. Worked on now over some 25 years, it remains perhaps the truest thing to his spirit as an artist that Phillips has ever done.

He is an obsessive artist, a maker of series and sequences, a slave to system and habit who is still capable of trapping himself in the grandiose and the self-conscious, over-proud of his erudition and copious curiosity. It is as though he does not trust his hand and intuition without such intellectual props. Yet these are engaging vulnerabilities, and when he so forgets himself as to trust his hand to itself, as in the recent pastel drawing, 30 feet long, that investigates "the beginning of language" no less – a typical Phillips gloss – the work springs to life.

Patrick Caulfield: Paintings 1963-1992 Serpentine Gallery, Kensington Gardens W2 until January 17;

Tom Phillips: Major works 1970-1992, Sackler Galleries, Royal Academy, Piccadilly W1, until December 20.

'The Quest for Irma', 1973, by Tom Phillips

Weekend concerts in London

A new piano to conquer

The renewed Wigmore Hall boasts a gleaming new Bösendorfer, grand as could be and sumptuous in tone. It sounds as though visiting pianists will need some time to master the beast: even György Fischer, a week ago, had trouble keeping Rossini's lightest accompaniments from challenging Cecilia Bartoli's light mezzo.

On Friday, Imogen Cooper put her best foot forward in one of Schubert's enchanting chains of "German dances", D. 783, and in five Smetana polkas. For Schubert she got the instrument to sing, and her Smetana pranced and careened with a good measure of unbuttoned cheerfulness. Janáček's *Sonata 1: X: 1905*, a stark torso, had some intense feeling, though it moved a bit stiffly. His sudden black gestures of rage and protest are no part of Miss Cooper's natural mode.

Schubert's limpid devices, however, are – or ought to be; and it was sad to hear the great B-flat Sonata, D. 960, emerging so shyly and wanly from her instrument. Every bar of it bespoke an intelligent musician with a deep (even paralysing?) respect for the music, but they added up to a performance very short of depth, breadth or specific gravity. The Scherzo and the Finale plucked up a little courage, but too late.

In her anxiety not to let the piano roar, one suspected, she had reduced it to an anaemic mumble. It was not enhanced by her chosen preface, Schoenberg's Six Little Pieces op. 19 (for which she decreed that there should be no applause): after exemplary recent performances by Katharina Wolpe and Mitsuko Uchida, cleanly etched and taut, Miss Cooper's watercolours sounded just well-meant and over-pedalled.

On the following evening the Domus piano quartet were unquenchably lively in Mozart – particularly in the boy-composer's "concerto" adaptation, K.107/2, of a J.C. Bach keyboard sonata – and Richard Strauss. As usual, Susan Tomes' bright fingers lent fine point and rhythmic electricity to the 18th-century exercise, and all four players between them solved whatever problems of balance there may be in Strauss's early, lusty C minor Quartet. But for three or four passages that want a franker warmth than comes easily to Domus, whose precise tingle is on the brittle side, this was a performance of impeccable spirit.

The showpiece of the concert was meant nevertheless to be the long-forgotten piano-quartet version of Mozart's inspired E-flat Quintet for piano and winds, K. 452. It may or may not be from Mozart's own hand; probably not, but it was creatively rewritten for the alternate medium, and actually published before the original was. The loss of the bold wind-colours is plain, of course – but the performance here was no fair test of the success of the more homogeneous score, which was not conceived for anything like a modern grand piano.

A lighter period instrument was sorely missed. Miss Tomes did not overplay, quite the contrary; and yet the string trio was reduced almost to marginal wittering, with the result that the most striking effects of the wind-version were all too conspicuous by their absence. Mozart's two "real" piano-quartets are designed to give the solo instrument its head. In the Quintet with forward winds the jovial competition is much more even, whereas the string-version supplies the piano with only tame foils. I want to hear Domus play it with Miss Tomes at, say, the keyboard of an old Broadwood.

David Murray

Fauré at the Wigmore

More than the other London concert-venues, the Wigmore Hall can claim a history that is valuable in its own right. The signed photos on the walls of the new Bechstein room, a meeting-place for sponsors created out of the old basement during the recent refurbishment, recall some of the great names who have appeared there.

It was an excellent idea to take up the potential of that historical tradition in this re-opening season. The Nash Ensemble has put together a "Commemorative Wigmore" series of six concerts, all of which feature programmes performed at the hall between 1910 and 1944. Audiences can reflect on the changing expectations of music-lovers over the century and also muse on some of the marvellous performances that must have been heard.

What a temptation to think oneself back to June 9 1925. That was the date of the Wigmore's memorial concert to Gabriel Fauré, who had died the year before. The roll-call of artists who appeared (Cortot, Lionel Tertis, Henry Wood, to name butthree) was long and prestigious. Programmes of this kind were generous in those days, too, and the Nash Ensemble's re-construction on Sunday afternoon stretched into the early evening.

Tertis's place was taken by the Nash Ensemble's Roger Chase, modestly eloquent in the *Elégie* for viola, Op.24. Cortot's seat at the piano was occupied by the Ensemble's Ian Brown, who played the *Thème et Variations*, Op.73, most likely without the idiosyncracies of his great predecessor.

The main part of the programme, however, was given over to the *mélodies*. And rightly so, for this is where the heart of Fauré's music palpably beats. The constant pleasure in each of these small groups of songs was the playing of Malcolm Martineau, who had the right drawing-room atmosphere at his fingertips – especially when he was accompanying the soprano Yvonne Kenny, the most stylish of the afternoon's three singers.

From recordings of the great Fauré interpreters, Bernac and Souzay above all, we know that it is possible to find more sunset luxuriance in "Soir", more resentment in "Prison"; but Kenny sang the songs simply and with beauty, except when the voice hardened a bit at the top. Felicity Palmer has the measure of the deeper songs, but with her mezzo the hardness became intrusive; Adrian Thompson pushed the music, and his tenor, too forcibly.

At either end of the programme the Nash Ensemble gave splendid accounts of the favourite Fauré Piano Quartets, the joyous ending of the C Minor sending the audience out on a wave of those elating harmonies so typical of the composer at his happiest. A fine start to the series: the next three concerts, taken from the Wigmore's war-time years, look especially fascinating.

Richard Fairman

Opera/**Richard Fairman**

Massenet's 'Cendrillon'

The competition between the music colleges in Britain is as intense as ever. Following the wide acclaim that greeted its spring term production of Vaughan Williams's *The Pilgrim's Progress*, the Royal Northern College of Music in Manchester has gone into the lead by ambitiously putting out a complete live recording of the opera on CD – surely a first in student circles.

There is every sign that the RNCM sees itself as the music college that intends to go to the ball. For its winter opera this year it has chosen Massenet's version of the Cinderella story, *Cendrillon*, an enchanting but flawed minor masterpiece, which has never won the popularity it craves. It has rarely been staged in Britain, though by chance the Royal College of Music also put it on for their students a couple of years ago.

The comparison mostly goes London's way. There the opera was given a sleek modern look, which admittedly seemed questionable at the time. At the RNCM the producer Stefan Janski and his designer Richard Marks just threw open the gates of Walt Disney world and plunged in. The show was so heavy handedly twee, it had to be tongue-in-cheek. Indeed, by the end the ghastliness of it all had become quite compulsive: surely those sets were the very same as at my local theatre when they put on a panto called "Cinders" in the early 1960s?

Massenet's score, however, does not support a send-up, as it includes some of the most enchanting fairy-tale music to be found in French opera. David Lloyd-Jones dealt with those pages in a heavy-handed fashion, though he drew extremely fine playing from his student orchestra. He deserves our thanks, too, for including the ballet music, which is usually cut, for dancers of the Northern Ballet School.

As for the young singers, the RNCM fielded an impressive team, as usual. The title-role was taken by Sara Fulgoni, who has a deep mezzo which stretches up to a high D no less, a voice with a range, strength, and colours unusual for a student singer. The future would seem to hold various long-term possibilities (might she perhaps be a soprano?). For the present, though, she really is not right for Massenet's fragile waif of a Cinderella.

It might have been better to follow the composer's original intentions and have the tall, elegant Miss Fulgoni play a mezzo Prince Charming. Instead, that role went to Stephen Chaundy, who should prove a tenor worth watching, though he has a set of contorted French vowels that would give Jacques Delors nightmares. Kathleen Wilkinson made a strong impression as the haughty stepmother and Craig Smith offered a useful high baritone as her husband.

In the role of the fairy-godmother Louise Walsh, dressed as head-girl fairy waving a huge magic wand, ran up and down her sparkling high scales with no trouble. Each time she appeared, there were clouds of dry ice, ballet-girl fairies did pirouettes and hordes of pixies galumphed around, but all to little avail. As a true revival of Massenet's lovely *Cendrillon*, this was an evening when the RNCM's magic dust refused to do its tricks.

Further performances December 9, 12

Background for Evelyn Glennie

The Royal Philharmonic Orchestra provided the backing for virtuoso percussionist Evelyn Glennie at the Royal Festival Hall on Sunday night, as part of a programme conducted by Paul Daniel and also including Stravinsky's *Petrushka* and Britten's *Young Person's Guide to the Orchestra*.

This last was played with crisp decisiveness: I had not heard it in years, and was thrilled to bits by the utter simplicity and mastery of Britten's musico-pedagogical scheme. The section in which the percussion are displayed – each instrument, down to gong, block and whip, instantly and subtly characterised – had more to say musically as well as pedagogically than the whole of the percussion concerto by the 60-year old Dane, Per Norgard, which followed.

For a Change is a work in four movements – the inner pairmuch briefer than the outer – developed in 1983 from a solo percussion piece, *I Ching*, which Norgard composed the previous year. The movements have I Ching-like titles referring to states of being, such as "The Gentle, The Penetrating" for the third movement, in which the soloist concentrates on the kalimba (*i.e. sansa or mbira*), an African metal-bar glockenspiel-ish instrument, played with the thumbs; or "Thunder Repeated: The Image of Shock", which speaks for itself.

Quite a variety of percussion was used, though more pitchless than pitched. Glennie in stockinged feet slid from one to another of four performance stations at the front of the platform, sometimes engaging in dialogue with members of the orchestra – exquisitely so when kalimba-ing with the two flutes – but alarmingly often breaking into long cadenzas and going bananas on the tomtoms. The orchestral parts had a disappointing tendency to turn into vamping after just a few bars of strict notation; and the work's problem, in a nutshell, was that it was too much percussion and not nearly enough concerto.

Paul Driver

INTERNATIONAL ARTS GUIDE

AMSTERDAM

CONCERTS

Concertgebouw Tonight and Fri: Vassili Sinaiski conducts Netherlands Philharmonic Orchestra in Beethoven's Third Piano Concerto (Rudolf Buchbinder) and Shostakovich's Thirteenth Symphony (Robert Holl). Tomorrow: Lev Markiz conducts New Sinfonietta Amsterdam in works by Elgar, Heath and Britten.

Tomorrow (in Kleine Zaal): Nathalie Stutzmann song recital. Thurs: Georg Solti conducts Royal Concertgebouw Orchestra in Bartok's Concerto for Orchestra and Mahler's Das Lied von der Erde (Marjana Lipovsek and Thomas Moser). Fri (Kleine Zaal): Julian Bream.

Sat afternoon: Edo de Waart conducts Mahler and Berio. Sat evening and Sun afternoon: Matt Haimovitz. Next Mon and Tues: Rene Jacobs conducts Monteverdi's Vespers (6718 345)

OPERA/DANCE

Muziektheater Tomorrow and Sat: Hartmut Haenchen conducts Pierre Audi's new production of La boheme (six more performances till Dec 29).

Sun: Dutch National Ballet's Stravinsky programme, including choreographies by Balanchine and Nijinska (6255 455)

BRUSSELS

Palais des Beaux Arts 20.00 Ensemble Vega, with pianist Andre de Groote, plays chamber music by Mozart, Hummel and Beethoven.

Thurs: Pierre Bartholomee conducts Liege Philharmonic Orchestra in a Tchaikovsky programme. Sat and Sun afternoon: Ronald Zollman conducts Belgian National Orchestra and Brussels Choral Society in Bernstein's Halil and Chichester Psalms.

Next Mon: Philippe Koch violin recital. Next Tues: Josef Suk. Dec 17: Jose van Dam sings **Winterreise** (507 8200)

Monnaie Fri: revival of Die Zauberflöte, conducted by Heinrich Schiff and staged by Karl-Ernst and Ursel Herrmann. Runs till Dec 29 (219 6341)

Theatre National 20.15 Beaumarchais' play The Barber of Seville, daily till Sat (217 0303)

CHICAGO

CHICAGO SYMPHONY

Pierre Boulez is in the middle of a four-week residency at Orchestra Hall. Tonight he conducts works by Bartok and Messiaen, and Leon Fleisher is soloist in Ravel's Left Hand Concerto. Thurs, Fri, Sat, next Tues: Prokofiev's Fifth Piano Concerto (Dmitri Alexeev) and Stravinsky's complete Firebird. Dec 17, 18, 19: all-Stravinsky (435 6666)

CHICAGO LYRIC OPERA

The repertory for the rest of the month is Un ballo in maschera (Dec 11, 16 and 19) and La boheme (revived on Sat for eleven performances till Jan 22). The Verdi cast includes Sharon Sweet and Vladimir Chernov, the Puccini has Lucia Mazzaria and Giuseppe Sabbatini (332 2244)

MUNICH

Gasteig Tonight: second part of Bach's Christmas Oratorio. Tomorrow till Sat: Big Band Meeting. Sat: Yehudi Menuhin conducts Sinfonia Varsovia. Sun morning, next Mon, Tues, Wed: Cristian Mandael conducts Munich Philharmonic Orchestra in works by Weber, Bruch and Schoenberg, with violin soloist Viktor Tretiakov (48098 614). Sun evening: Roberto Abbado conducts choral music by Handel, Bach and Telemann. Dec 17, 18: Lorin Maazel conducts Bavarian Radio Symphony Orchestra (558080)

Prinzregententheater Tomorrow: Il trovatore with Julia Varady and Dennis O'Neill. Sun morning, next Mon and Tues evenings: Georges Pretre conducts symphonic works by Dvorak, Bizet and Ravel (221316)

Herkulessaal Tonight: MDR Chamber Philharmonic plays works by Haydn, Mozart and Beethoven.

Tomorrow: Frans Bruggen conducts works by Mozart and Mendelssohn. Next Tues: Anatol Ugorski piano recital (299901)

PARIS

DANCE

An Opera Ballet production of three Jerome Robbins works opens at **Palais Garnier** on Fri, also Dec 12, 13, 15, 17, 19, 20, 23, 26, 27, 29 (4742 5371). The company also presents the Bourmeister production of Swan Lake at **Bastille** on Sun, also Dec 16, 18, 22, 24, 28, 30, 31 (4473 1300). Josef Nadj and Theatre Jel daily till Sat at **Théâtre de la Ville** (4274 2277)

OPERA

Peter Sellars' production of Messiaen's Saint Francois d'Assise opens at Opera Bastille on Sat for six performances, with a cast led by Jose van Dam. Next Mon and Thurs: Gounod's Faust (4001 1616). Tonight and tomorrow at **Théâtre des Champs-Elysees:** Lully's Armide (4720 3637). Fri at **Bobigny:** first of ten performances of Philip Glass/Bob Wilson music theatre work Einstein on the Beach (4831 1145). Peter Brook's Impressions de Pelleas runs till Jan 23 (except Dec 20-28) at **Théâtre des Bouffes** du Nord (4607 3450)

CONCERTS

Tonight and Thurs at **Châtelet:** Vogler Quartet plays chamber music by Brahms and Schumann. Tomorrow: Hans-Peter Blochwitz song recital.

Next Mon: Henry Lewis conducts a Rossini concert, with soloists Leila Cuberli and Martine Dupuy (4028 2840). Tomorrow and Thurs at **Salle Pleyel:** Semyon Bychkov conducts Orchestre de Paris in Mahler's Sixth Symphony (4563 0796). Thurs at **Bastille Studio:** song recital by Colette Alliot-Lugaz. Next Mon: Yumi Nara sings Messiaen's song cycle Harawi (4001 1616).

Fri at **Centre Pompidou:** Jukka-Pekka Saraste conducts orchestral music by Kaija Saariaho and Magnus Lindberg (4478 4816). Fri at **Salle Pleyel:** Shlomo Mintz violin recital. Sun afternoon: English Cathedral Choir of Paris (4230 2308). Sun morning at **Théâtre des Champs-Elysees:** Josef Suk and Talich Quartet. Sun afternoon: Svetlanov conducts Russian State Symphony Orchestra (4720 3637)

JAZZ/CABARET

Jazz Club Lionel Hampton Sandra Reaves-Phillips and All Star Jazz Band daily except Sun till Dec 19. Dec 28-Jan 9: Lionel Hampton and his Orchestra (Hotel Meridien **Paris Etoile**, 81 Boulevard Gouvion St Cyr, tel 4068 3042)

WASHINGTON

DANCE

Joffrey Ballet's 1989 production of Nutcracker opens tomorrow at **Kennedy Center Opera House,** daily except Mon till Dec 20 (202-467 4600).

Mary Day's Washington Ballet production of Nutcracker can be seen Dec 11-27 at **Warner Theater** (202-432 SEAT)

MUSIC

Fri, Sat and Mon in **Kennedy Center Concert Hall:** Roger Norrington conducts Messiah. Sun in **Terrace Theater:** Julliard Chamber Orchestra. Dec 26: Washington Opera season resumes with Don Pasquale (202-467 4600). Tomorrow at Baltimore's **Joseph Meyerhoff Symphony Hall:** Handel's Messiah. Dec 17, 18: Yuri Temirkanov conducts Baltimore Symphony Orchestra (410-783 8000)

THEATRE

● The African Company: Carlyle Brown's play about a group of early 19th century African American actors in New York who put on their own version of Richard III. Opens tomorrow, till March 28 in repertory with Blood Knot, the 1961 play about apartheid which made Athol Fugard's reputation (Arena Stage, 202-488 4377)

● Medea: the Euripides tragedy. Till Dec 20 (Georgetown Theatre Company, 301-654 8664)

● Jesus Christ Superstar: the musical by Andrew Lloyd Webber and Tim Rice opens next Tues for a three-week run (Morris Mechanic Theater, 410-625 1400)

ZURICH

Tonhalle Tonight and tomorrow: David Zinman conducts Tonhalle Orchestra in works by Ravel, Debussy and Varese. Thurs: Gil Shaham violin recital (206 3434). Sat: Heinz Holliger conducts wind music by Mozart (261 1600)

Opernhaus Tomorrow, Sat and Sun: Nutcracker. Thurs: Capriccio. Fri and Sun evening: La forza del destino with Mara Zampieri. Dec 20: first night of Jonathan Miller's new production of Schreker's Die Gezeichneten (262 0909)

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MONDAY TO FRIDAY

CNN
2000-2030, 2300-2330 World Business Today – a joint FT/CNN production with Grant Perry and Colin Chapman

Super Channel
0700-0710, 1230-1240, 2230-2240 FT Business Daily
0710-0730, 1240-1300 (Mon, Thurs) FT Business Weekly – global business report with James Bellini
0710-0730, 1240-1300 (Wed) FT Media Europe
0710-0730, 1240-1300 (Fri) FT Eastern Europe Report
2240-2248 FT Report

Sky News
2030-2100, 2230-2300 FT Business Weekly

SATURDAY

CNN
0900-0930, 1900-1930 World Business This Week – a joint FT/CNN production

Super Channel
0830-0900 FT Business Weekly

Sky News
1130-1200, 1730-1800 FT Media Europe

SUNDAY

CNN
1030-1100, 1800-1830 World Business This Week

Super Channel
1900-1930 FT Business Weekly

Sky News
0130-0200, 0530-0600 FT Media Europe
1330-1400, 2030-2100 FT Business Weekly

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Tuesday December 8 1992

Re-regulating investment

MR ANTHONY Nelson, the Treasury minister responsible for the financial services industry, has acknowledged that changes are needed in the way the sector is regulated. He is adding his voice to a swelling chorus.

Like almost all the figures who *have offered their thoughts on this subject in recent weeks* – including Mr Mick Newmarch of the Prudential, Lord Alexander of National Westminster Bank, and Mr Andrew Large of the Securities and Investments Board – Mr Nelson *is better at diagnosis than at cure*.

He wants the interests of investors, rather than the financial industry, to be at the heart of the system. Yet he has also said there will be no wholesale change in the regulatory structure, and clearly wants to avoid fresh legislation. Can such a shift of the regulators' priorities be achieved without radical change?

The current system muddles together four largely separate aims: *the detection of fraud;* the protection of consumers against unscrupulous selling practices; the prudential supervision of financial services business, to make sure they are financially strong enough to sustain the risks *they are taking on; and the* enforcement of "fair dealing" in markets dominated by professional traders.

Responsibility for enforcement has been divided among the SIB, a lower tier of Self-Regulating *Organisations, a third tier of* exchanges, and the Serious Fraud Office. And there has been a marked lack of leadership on precisely the issue that Mr Nelson identified, as a backbencher nearly seven years ago, as the most important one: *the interests* of the investing public.

The current state of regulation is a huge improvement on what went before. Its biggest problems lie in the area that every country in the world finds difficult to regulate: the selling of financial products to retail investors.

Strong enforcement

A new approach to regulation must separate out the objectives that the current act muddles together. That means providing, in the first place, for strong enforcement of laws and regulations. This especially requires a serious attempt to seek and expose full-scale fraud. But it also means achieving a better record of enforcement in professional markets, where the attempt to bring the full weight of the criminal law to bear on traditional less-than-edifying practices has led to delay, confusion and – ultimately – injustice.

Second, it means the creation of *clear, straightforward* consumer protection regulations, backed by a workable compensation scheme. Both the structure of supervision, and the compensation scheme, should be easily explicable to the general public, without creating a *belief that risk has been abolished*.

And third, a new approach to regulating the industry requires light regulation of true inter-professional markets, coupled with simple prudential supervision.

If that is what is needed, how *should we deliver it? Pace Mr* Newmarch, it is a pipedream to think that direct government regulation is the answer. A main reason for the current act was to get regulation out of civil servants' hands.

Single-tier structure

It is also mistaken to believe that imitating the US Securities and Exchange Commission offers an instant solution, since many of *the UK's most intractable problems* fall outside the SEC's remit. Still, there are some useful lessons to draw from the SEC. Its independence, the strength of its board, the quality of its staff are all worth learning from.

It may only be possible to achieve those aims by creating a single-tier regulatory structure, one which unites the work currently being done by the SIB and the SROs. Simplicity, the need for a single point of contact for *complaints, the desire to recruit the* very highest calibre of staff all argue for a single institution.

This body, a strengthened SIB, should organise itself not sector-by-sector, as the current SROs do, but issue-by-issue. It should apply *the three priorities outlined above* as three dimensions of policy, applied across the board. That means, for example, that it needs a proper enforcement director, to work in co-operation with the SFO, but also drawing on – as Lord Alexander has recommended – a system of civil penalties similar to that available to the SEC.

On the retail side, the new SIB needs a private investor protection director, to work with the Office of Fair Trading and other similar government bodies. The task would be to focus on selling practices, regardless of the type of investment institution responsible and to put investors' interests first.

Such an organisation would not be easy to run. But, by separating out the priorities of policy quite explicitly, it would have a better chance of achieving them. Mr Large and Mr Nelson should bend their minds to such fundamental issues. They will be amply repaid for the effort.

Saying no to Mr Sugar

IT NOW looks highly likely that Mr Alan Sugar's attempt to take the Amstrad electronics company private will be defeated at Thursday's shareholder meeting. It is not a reflection on Mr Sugar to say that this is to be welcomed. Any public company founded on the talents of one person has its special features. But the market has tended in the past to exaggerate this: to conclude that if the founder has tired of the public arena, other shareholders can do nothing but shrug in resignation and indulge the whims of genius.

When the entrepreneur goes public, a community of interest is established with other shareholders. The obligation this creates is reciprocal. It deserves to be durable as well. Indeed, it is precisely when the founder tires of the relationship with shareholders that shareholders may feel it most worth retaining. On the one hand, it seems wholly plausible that Amstrad has run its course: that the opportunities in electronics which allowed such extraordinary growth in the early 1980s no longer exist. On the other, Mr Sugar has given his fellow investors almost no clues on how he proposes to retrieve the situation. But it is perfectly logical for them to conclude that, whatever his plans, they are likely to be in the best interests of shareholders as a class.

Chief loser

Mr Sugar has calculated that the company is worth a given *price – 30p a share – when* loaded with debt for the purposes of the buy-out. It is hard to see how it can be worth much less as a debt-free public company. If his offer is rejected, he has said he might sell his shareholding at the offer price. But any buyer at that price would presumably see his own way to making a profit, thus once more benefiting other shareholders. Again, Mr Sugar has said that as a public company, Amstrad could not pay significant dividends. If he were obliged to remain public, the chief loser from such a policy would be himself.

The risk in such cases is that the entrepreneur might deliberately seek to drive the share price down and then return with a lower offer later on. This is where the case for better corporate governance becomes unanswerable.

Board representation

Perhaps the single most objectionable aspect of the Amstrad affair has been the absence of even a single non-executive director to give shareholders disinterested advice. If shareholders decide to make Mr Sugar stay on and face the music, they should insist on board representation while they are at it. It might be objected that this would run counter to the whole notion of the entrepreneur as free spirit. But if the 1980s have taught investors anything, it is that when the going gets rough, the running of companies has less to do with unfettered genius than with the humdrum skills of professional management.

If the stock market were denied the talents of entrepreneurs such as Mr Sugar, it would certainly be the poorer for it. But the lesson of this case and others like it is that such talents need not be obtained wholly on the entrepreneur's terms. Mr Sugar has earned the displeasure of investors in various ways: by unloading shares in advance of a downturn in his company's fortunes, by denying shareholders *independent advice* and by withholding any real details of his plans for the company as a private entity. It would be senseless to block his offer as a mere act of revenge, but it would serve a useful purpose if it stood as a warning *against businessmen dipping* in and out of public ownership when it suited them. With luck, it might also prove less expensive than shareholders are disposed to fear at present.

Germany's declining economy is raising hopes of a pact between government, unions and employers, says **Quentin Peel**

Forced to find common ground

When gloom overtakes the German economy, it always seems to come with a vengeance. And yet this time, the very sharpness of the downturn is forcing erst*while political foes to agree on a* remedy.

The principal economic indicators have been looking dejected for months, but the series of dismal statistics in the past couple of weeks takes some beating.

Real gross national product fell 1.5 per cent between the second and third quarters of the year, investment spending fell 3 per cent, and consumer demand was down 0.5 per cent. Unemployment was up in November to almost 3m in east and west Germany combined.

Chancellor Helmut Kohl even dared to use the "R-word" – recession – to describe the state of the German economy in an unscripted insert in his budget debate speech at the end of last month. This merely confirmed what most economists have been saying for months.

Particularly worrying was the failure of inflation to continue its gradual downward trend in November – not least for those in the rest of Europe looking for a relaxation *in the Bundesbank's tight monetary* policy. Figures from the country's regions suggest inflation will remain at a stubborn 3.7 per cent for the country as a whole. In January, a one per cent rise in VAT will push inflation back over 4 per cent.

And then came another sharp drop in industrial orders in October – down 5.1 per cent from September, and 9.7 per cent compared with October 1991. The respected IFO economics institute says 1992 will show the first real decline in *manufacturing output for a decade, down* 1.5 per cent, and that will accelerate to 3 per cent in 1993.

The truth is that the extent of the downturn has been aggravated by the short-lived surge Germany enjoyed after unification, which *also delayed the realisation in the* west that the international recession was going to hit it too.

The forecasters have sharply reduced their expectations for the coming year, but they still expect recovery to begin from mid-year. *Thus the five leading economic* institutes, in their autumn report, were still predicting a GNP growth of one per cent next year (just 0.5 per cent in the west). In mid-November, the five "wise men" who provide independent advice to the *government, were putting it at zero* growth overall.

Behind their caution lies the question of whether the unique economic upheaval caused by German unification, and the subsequent collapse of east German industry, is not going to cause something more profound than a temporary recession. The combination of a weakening western economy, and a devastated eastern economy requiring a total structural overhaul, presents German leaders with a daunting challenge.

Chancellor Kohl's response has been to propose a high-risk, peculiarly German political strategy: to negotiate a "solidarity pact" between government and opposition, trade unions and employers, to finance the long-term costs of unification without sending the economy into a tail-spin.

The idea is to seek western restraint to finance eastern recovery: wage restraint from the unions, cuts in public spending from central and state governments, an extra boost in eastern investment from the private sector, and all of it financed in an equitable, socially-acceptable way. It is a tall order under *any circumstances*.

Mr Kohl has set himself a deadline of Christmas to reach a deal, with a fall-back position of January. And thanks to the welter of economic gloom from the statisticians, his chances of success are greatly *increased*.

The importance of the solidarity pact goes far beyond the borders of a united Germany, as indeed the currency market traders are acutely aware. For if it succeeds, it contains precisely those ingredients – credible wage restraint and budgetary discipline – which will persuade the Bundesbank to move much faster in cutting interest rates. If it fails, the prospects of early relaxation will sharply recede.

So far, the signs of progress have been better than expected. The chancellor has had a series of secret meetings with four top trade unionists, details of which only began to leak out late last month. He has had a first round of talks with Mr Björn Engholm, leader of the opposition Social Democrats (SPD), from which both emerged saying they wanted to do a deal. And he has presented the insurance and banking industries with a plan to spend DM1bn (£400m) apiece on new housing in the east.

The clearest indication of a breakthrough came three weeks ago, when the chancellor was talking to industrialists in Schwerin, capital of the eastern Land of Mecklenburg-Vorpommern, the poorest of all the eastern Länder. There he indicated a U-turn in government policy: he was no longer going to insist on "privatise or close" as the motto for eastern enterprises, he said. To prevent an outright collapse of eastern industry, the government was ready *to consider keeping a variety of* "key enterprises" going on direct subsidies, if they could be "restructured" over the longer term.

It was precisely what the trade unions, and the SPD, had been calling for: an industrial policy to preserve at least some portions of the east German industrial heartland.

Some say it is too late. Mr Wolfgang Roth, economy spokesman of the SPD, fears that eastern manufacturing is almost beyond rescue. "So much is already destroyed," he said. "By the end of next year, there will only be 400,000 manufacturing jobs left in a labour force of 6m. That is a tragedy, and it was avoidable."

Nonetheless, the trade unions are convinced that a belated industrial rehabilitation effort is better than no effort at all. The problem is identifying precisely where it begins and ends.

"The question is how you choose which firms qualify," according to one senior government official involved in the talks. "It is difficult to explain why, say, 100 enterprises should be saved, and not 120. Then it is extremely difficult to decide how long they should be kept afloat. Many are competing with western companies, who are themselves being forced to cut back."

The Treuhand privatisation agency had sold off 10,403 separate *enterprises by the end of October*, leaving 3,189 still on its books. The biggest ones are the biggest problem. Almost 224,000 workers are employed in companies with 1,500 workers or more, out of the 549,000 on the Treuhand's books.

Mr Franz Steinkühler, boss of the big IG-Metall engineering trade union, has proposed an all-embracing engineering holding company to preserve the bulk of the eastern industry. There seems little chance that Mr Kohl would be prepared to go so far. But he has asked Mr Steinkühler and his colleagues to come up with their own list of the enterprises which should be saved.

The very fact that Mr Kohl is talking about an industrial intervention strategy has raised the hopes of the unions. "Mr Kohl is making our speeches for us now," says Mr Jörg Barczynski, spokesman for IG-Metall.

In return, the unions are clearly moving towards a policy of wage restraint, even though they are very loath to talk precise figures. The OTV public sector union, whose leader Ms Monika Wulf-Mathies is also involved in the top-level negotiations, has tabled a claim for 5 per cent in west Germany next year – with most analysts expecting a settlement down towards 3.0 to 3.5 per cent. Several union leaders, including Mr Steinkühler, have talked of holding their pay claims down to the rise in the cost of living. The employers are sceptical – they want productivity, not inflation, as the measure – but the direction is clearly down from last year's settlements.

Mr Kohl very much wants wage restraint in the west, above all in the public sector. But he equally wants big concessions in the east, where the wage problem is if anything more critical: Wage equalisation with the west has run far ahead of productivity, so that wages now stand at some 70 per cent of western levels, and productivity at only some 30 per cent.

The argument therefore is that the unions, and especially IG-Metall, should water down their negotiated wage contracts which provide for continued rapid wage equalisation, reaching 100 per cent by 1994.

Mr Steinkühler has flatly rejected any statutory move to re-open the wage contracts, as proposed by Mr Jürgen Möllemann, the free-market economics minister. But he is clearly prepared to consider some form of case-by-case relaxation. He argues that productivity levels vary widely from company to company in the east, and no single statutory solution would be appropriate.

In spite of union-government movement on those issues, the stickiest area remains: financing the policies, and cutting back spending in the west to do so. Mr Theo Waigel, the finance minister, has just endured an agonising exercise with his own supporters in the coalition government, attempting to cut some DM6bn out of spending from next year's DM435bn budget. He still needs to find savings to finance the proposed industrial policy in eastern Germany, but budget officials say the only big areas they can now cut involves social spending. And that is anathema to the trade unions.

Latest leaks from the negotiations suggest that Mr Waigel is proposing to reduce unemployment benefits. He is also pushing for a 2 per cent ceiling on pay rises for civil servants, the one group which has not had to pay increased unemployment contributions for the labour market measures introduced in the east.

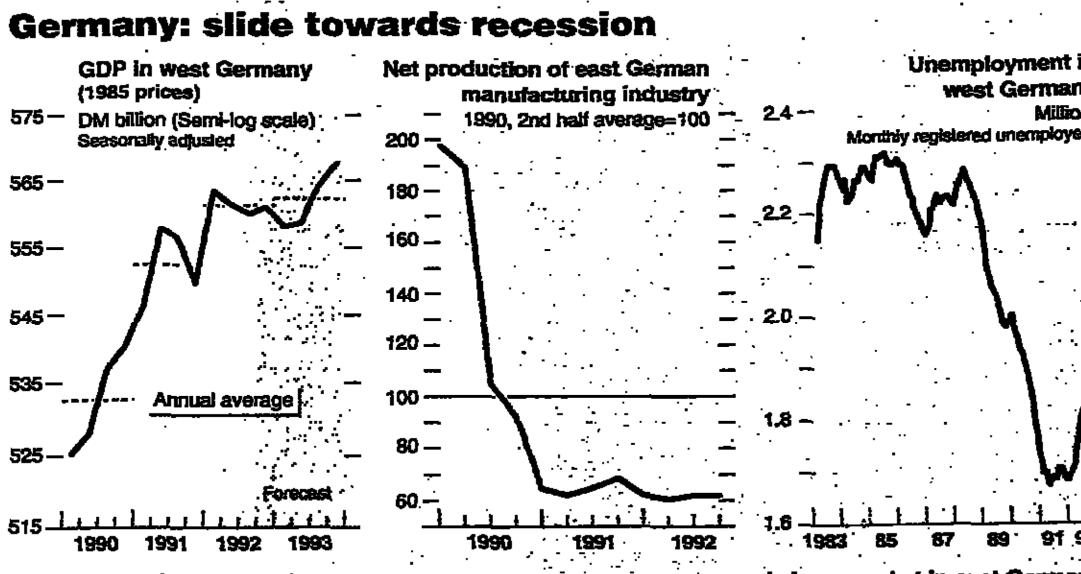
Now the negotiations are likely to get down to the really hard bargaining. But if there is no deal on public sector restraint, given soaring public sector deficits, the Bundesbank is going to keep the screws on monetary policy, *according to the signals coming out of Frankfurt*.

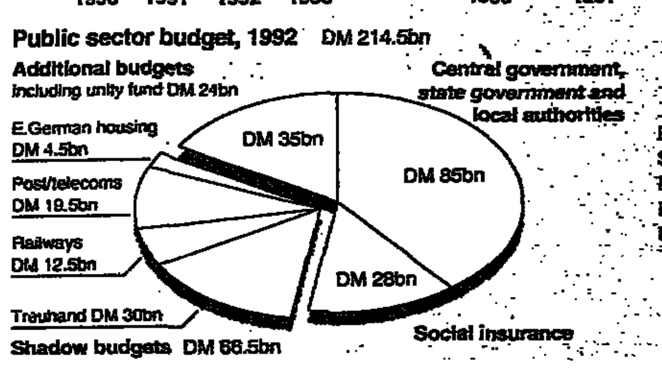
The key to a deal remains Mr Kohl's own readiness to bargain. At talks last month, Mr Steinkühler savaged Mr Möllemann for understanding less about economics than his 12-year-old son, when he wanted more pocket money. The chancellor intervened on behalf of the union leader, and told his minister to go away and do his homework.

"The truth is that the chancellor wants a deal. He knows he cannot win the next elections in 1994 without support from east Germany," according to one trade unionist. "That means he has got to tackle the unemployment problem, and we are the only ones with the policies to help him do so.

"It may be true that the chancellor does not understand very much about economics. But he understands a great deal about power."

Germany: slide towards recession





Labour market in east Germany

('000)

	1990	1991	1992	1993
Economically active	8,868	7,179	6,170	5,900
Short-time work	758	1,616	370	190
Early retirement	239	543	820	830
Full-time retraining	11	223	420	400
Unemployed	240	913	1,190	1,240

Source: Economic institutes, Council of Economic Advisers and Federal Statistical Office

Joe Rogaly

Cost of Norfolk claret

If the global climate does warm up during the next half-century, the effect on the world's food supply will be dramatic, but mixed. Our children or grandchildren could see flourishing vineyards in southern England, abundant sunflower crops in northern Europe, a shift in the balance of food production from Texas and Oklahoma to Minnesota and the north of New York state – and a disastrous fall in the third world's ability to grow cereals.

None of the above is certain. All of it is indicative of the growing level of complexity of the research into the likely effects of global warming. Some of the work in progress was discussed at a conference on "Energy for the 21st Century" at Brocket Hall, a commercialised country house in Hertfordshire, at the weekend. The host was Nuclear Electric. Several of the old reliables of environmental discourse were present, including Sir John Houghton, chairman of the greenhouse effect working group of the UN's Intergovernmental Panel on Climate Change, Sir Crispin Tickell, who turned Lady Thatcher green, and Professor David Pearce, a proponent of the use of market instruments to foster good practice.

Anyone who attended and heard out the 11 speakers could only deduce that there almost certainly will be an unprecedented rise in average temperatures across the planet. What is not so well established is by how much, or whether, during the first century of getting *hotter, the losses will be out*weighed by unforeseen gains. Work on both these conundrums has been extended since the US played for time at the midsummer save-the-world conference in Rio.

Fascinating preliminary results, upon which I built my opening fancy about Norfolk claret and Berkshire champagne, have come from Oxford University's Environmental Change Unit (ECU), headed by Professor Martin Parry. The latter's findings are derived from a three-year study commissioned in 1989 by the US Environmental Protection Agency, and conducted jointly by the ECU and the Goddard Institute for Space Studies. Some 50 scientists in various parts of the world were involved.

The professor's computer models say that, depending on the degree of warming, world cereal production may be reduced by between 1 per cent and 7 per cent by 2060. Poor countries would become poorer, with an average fall in crops of around a 10th. In hot regions wheat, rice, maize and soybeans are already grown near to their limits of temperature tolerance. In low latitudes, yields of these foods, which account for 85 per cent of the world's trade in grains and legumes, would be badly affected by higher heat and humidity. An addi*tional 60m to 360m people would be* more likely to starve. The worst effect would be in Africa.

That is the bad news. It should lead to the early adoption of precautionary measures against the emission of greenhouse gases that cause *global warming. Bring on a carbon* tax, you might say. Unfortunately for those of us who believe that this is an urgent necessity, the findings are presented as tentative. They are dependent on variables about which we cannot be sure. They are emphatically *not* a forecast. Even more unfortunately for us eager greens, rich countries may actually gain from global warming. The energy-profligate Europeans and Americans are the very countries that must tax themselves to reduce emissions.

Once again it is demonstrated that fate knows nothing of justice. Under most versions of the ECU model, crop yields increase in the rich countries. That is, I suppose, good news. At higher latitudes greater warmth can benefit farmers currently held back by cold weather and short growing seasons. This effect is not only global; it is also apparent within regions. In Europe everything moves a few paces north, including grains, grapes, sunflowers, soya plants – and the deleterious effect of the Sahara. If firmly established by further research, and if believed, Professor Parry's maps could change the balance of European environmental politics. Germany, Scandinavia and the Netherlands may become less green; Italy, Spain, half of France and Greece more so. A similar shift within the US may also be visualised.

A disaster, or the appearance of one, could change all that. The successively stronger conventions on phasing out chlorofluorocarbons were given their initial impetus by a satellite photograph of the hole in the ozone layer. The global warming debate began to be taken seriously in the US after the serious drought in the mid-west in 1988. A succession of iffy scientific studies, hedged about with necessary precautions, will never shape public opinion. Another drought in the US might, however, ratchet the entire debate a notch forward – perhaps to the point where clocking coal mines, and generating power by nuclear means, will come to be regarded with favour by the green and the good.

Unfortunately for us eager greens, rich countries may actually gain from global warming

A country split along its deepest fault line

Religious riots are shaking India's stability and threaten the secular foundations of the state, says Stefan Wagstyl

As night fell yesterday on the ruined mosque in Ayodhya, in northern India, Mr P. V. Narasimha Rao, the prime minister, had still to wrest control from Hindu militants who had reduced the shrine to rubble a full day earlier.

Commandos could be despatched as early as today. But even the bloody work of reimposing the rule of law, after nationwide riots which have resulted in hundreds of deaths, will be insignificant compared with the challenge Mr Rao faces in restoring the country's shattered political stability.

The storming of the mosque has shaken India along its deepest fault line – the division between Hindus and Moslems. The ability of the two faiths to co-exist has been the greatest triumph of Indian democracy. Not for nothing did the ruling Congress (I) party describe the demolition of the ancient shrine as "one of the greatest challenges India has faced since independence".

Some commentators saw the mosque's demolition as a more serious threat to political stability than even the assassinations of Mrs Indira Gandhi and Mr Rajiv Gandhi because the two former prime ministers had died at the hands of easily identifiable political enemies – Sikh and Tamil terrorists. The mosque's destruction stirs *much deeper passions* dating back at least as far as the 16th century when Moslem invaders conquered northern India. There was an almost primeval anger in the eyes of the young fanatics as they assaulted the mosque on Sunday, their faces daubed in paint and carrying tridents, symbols of Ram, the oldest god of Hinduism.

Certainly, in the heat of the moment, hyperbole is easy. It is also easy to forget the troubles that independent India has overcome – including partition and two wars with Pakistan, the arch-enemy. India's Moslems had the sense to keep their heads down then – and were rewarded by tolerance from the Hindu majority. *India, with its 850m people* and decentralised political structure, can absorb great shocks.

But a tradition of tolerance did not prevent Sunday's assault at Ayodhya. Nor will it easily defuse the tensions it has created. To tackle the crisis, Mr Rao and other political leaders must deal with its causes.

The upsurge of tensions over Ayodhya is primarily due to the political rise of the Bharatiya Janata Party, the right-wing militant party, which has grown rapidly since its formation in the mid-1980s to become the largest opposition party.

Mr Rao's first task is to re-establish control of the Ayodhya site

The BJP was founded by militant Hindu activist groups *with a long and sometimes* violent past, including the assassination of Mahatma Gandhi. These activists sensed a growing disillusion with the ruling Congress (I) party's self-avowed secularism, under which the interests of different religions are balanced for the sake of national unity. Secularism had been a powerful force during the fight to build post-independence India. But with the independence struggle now *a distant memory, it has grown* sterile.

So the militants launched an ill-defined but emotionally powerful mission of turning India into a Hindu state. To give substance to this aim the militant leaders chose an issue with the widest possible appeal – a campaign to reclaim Ayodhya, a holy town where a mosque had been built in the 16th century on the reputed site of a temple marking Ram's birthplace.

Thus political opportunism revived a long dormant dispute. Successive national governments tried to stave off confrontation by referring the arguments about the mosque *to India's courts. But pressure* mounted as the BJP increased its presence in parliament and won control of four provincial state governments – one of which was Uttar Pradesh, which includes Ayodhya.

Simultaneously, the BJP stirred its supporters by mounting huge rallies at Ayodhya in October 1991, July 1992 and again last weekend. Mr Rao prevaricated. Instead of surrounding the mosque with enough police and troops to defend it, he relied on the BJP's promises to control its supporters. This worked before. But this time the BJP's inability to control its radical wing meant the policy failed.

Whatever happens to Mr Rao, it is unlikely that the crisis will upset Congress's control of the government

Mr Rao's immediate task is to re-establish control of the site, though this may not be rushed for fear of inflicting death and injury on the militants. He was also preparing last night to bow to Moslem demands to ban the BJP's activist support groups, though not the party itself.

Mr Rao has taken a first step by imposing direct rule on Uttar Pradesh. But many MPs, including some in his own party, doubt whether the prime minister, with his reputation for indecisiveness, is the man for the job. As Mr Jaipal Reddy, of the opposition Janata Dal party, said yesterday: "We can't trust him to fight fascism."

Some Congress (I) MPs would like to replace Mr Rao with Mr Arjun Singh, the human resources minister, who has stated his opposition to appeasing the BJP. Whatever happens to Mr Rao, it is unlikely that the crisis will upset Congress's control of the government, not least because the BJP is in no position to offer itself as a successor and other parties are too small.

However, the survival of Congress rule will do nothing to address deeper uncertainties about India's future. The assault will damage India's fragile relations with Pakistan and Bangladesh. It will also tarnish India's image as the world's largest democracy and its claims to moral leadership in the developing world.

But these concerns pale in comparison with domestic considerations. In the past 18 months, India has gone some way to modernise its economy by opening long-restricted links with the outside world. Mr Lewis Preston, the president of the World Bank, himself *praised India's progress on* a recent visit.

Increasingly, western companies are seeking to develop interest in tapping India's markets. But political stability is a prerequisite for long-term investment, particularly for overseas companies.

The argument that Kashmir and even Punjab – provinces affected by terrorist violence – are isolated exceptions to India's general stability carries weight. But India's 120m-strong Moslem population – the second largest in the world after Indonesia's – forms such a sizeable group that what happens in Ayodhya matters everywhere. Curfews were imposed yesterday in New Delhi, Bombay, Calcutta – the three largest business centres. Nationwide protest strikes are due to be held today.

India is still a long way from civil war and even from prolonged, general, violent unrest. Indeed, there were some hopes in Delhi last night that the government could take advantage of the BJP's manifest disarray to rally the moderate majority which politicians of all parties believe still dominates India. But the failure to rally such support before last weekend is one from which India may take a long time to recover.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Equitable view of tax allowance

From D Q Milligan.

Sir, Mr. Michael Pattison (Letters, December 1), in opposing mortgage interest relief, is surely coming at the issue from the wrong direction. It is not so many years ago that there was a simple rule; interest received was taxable and interest payable allowable against tax.

The fairness of this can be seen from the example of two people, each with £30,000 in a bank deposit account. The first uses his to buy a house outright; no tax is payable or refundable as there are no interest earnings orpayments.

The second leaves his deposit intact, but takes out a £30,000 loan. He thus has £30,000 earning interest *liable* to tax and a £30,000 mortgage, interest on which gets tax relief. This is also tax neutral. Without mortgage interest relief, he would be taxed on his interest earned, but denied tax relief on the equivalent interest paid, which hardly seems right. Why should he be at a disadvantage to the first person?

The real unfairness is that all interest outgoings are not allowable, thus to mirror taxable interest earnings.

D Q Milligan,
Chute Lodge Cottage,
Chute Forest,
Andover, Hampshire SP11 9DG

BBC's finances under control and no programmes cancelled

From Sir Michael Checkland.

Sir, I have read reports in your newspaper of a BBC apparently out of financial control ("BBC says TV budget overran by £60m", December 4). As this is not the case, I would like to give the context in which the audit committee of the board reported on the budgetary performance of Network Television in London.

In 1991-92, the income of the BBC from licence fees and profits from BBC Enterprises was £1,399m. We spent £1,390m – £9m less than the income and £39m less than we had planned to spend in the year. The television problems in London, which we have made public as part of our determination to be more accountable to the public, were more than absorbed by underspendings elsewhere. No programmes had to be cancelled or productions stopped.

In 1992-93, our expected income from licence fees and our profits from BBC Enterprises will be £1,478m. Our expenditure is forecast to be £1,475m – £3m less than our income but £13m (0.9 per cent) more than we have so far budgeted to spend. We have therefore made a small number of adjustments to our television transmissions and productions including moving some into next year. We make almost 6,000 network programmes a year.

We are also incurring exceptional expenditure on major structural change as we reduce our resource base and staffing levels – more than 3,000 jobs have gone in the last 20 months. The cost of these changes, including redundancy costs, is being met from reserves and by borrowing within limits agreed by parliament.

I hope that licence payers will be reassured by the BBC's overall record and its continuing commitment to provide a full range of radio and television programme services within the income they provide. The recent National Audit Office report should give similar assurances on the proper use of grants from general taxation to finance the World Service.

Michael Checkland,
director-general,
British Broadcasting Corporation,
Broadcasting House,
London W1A 1AA

Balkan questions for the west to consider

From Mr Peter Seilern.

Sir, Why is it that western powers, particularly Britain, need the Organisation of Islamic Conference to make them realise what has been so painfully obvious for the last 18 months? Why do western powers need mass starvation in Bosnia, unchecked ethnic cleansing by the Serbs and the decidedly close threat of involvement by countries such as Iran to wake up to the reality of the Balkan problem? Why is it so easy to send 30,000 US-led troops to Somalia when the Bosnian tragedy is infinitely more dangerous to world peace? Why can the British government not look at the European map, work out the consequences of conflict between Serb-supporting Greece and Bosnian-supporting Turkey and act like the world power it claims to be?

Apart from all these questions there is the undisputed fact that a communist-led terror regime has shown violent aggression towards the internationally recognised territory of an independent sovereign neighbouring nation.

Peter Seilern,
6 Church Row,
Moore Park Road,
London SW6

BT price structure aims to stimulate use of under-utilised network

From Mr Michael Hepher.

Sir, BT's latest price freeze is part of our regular, normal review of prices and not a response to actions by competitors (Letters, December 4).

Unfortunately, BT's network is greatly under-used, with customers, on average, making only four minutes of calls a day. Whether the network is being used or not, BT still has the costs of providing and maintaining all the equipment in the exchanges and the lines to customers' homes; offering a 24-hour, seven-days-a-week, fault-reporting service with guaranteed repair times; operating telephone exchanges; running a free customer inquiry service, manned from 8am to 6pm, Monday to Saturday; and providing free phone books. All of these are included in the price of the line rental, equivalent to just over 25p a day.

For historical reasons, the line rental charge has, for many years, been kept below the true cost of providing these services by being cross-subsidised from income from calls. This has meant that prices for calls have been higher than necessary. For the past few years, BT has been trying to change this imbalance by increasing the line rental and making calls cheaper.

BT is also using its price structure to encourage greater use of its under-utilised network by offering discounts on volume use and innovative schemes such as the Sunday special offer. This offer, where calls made within the UK on Sundays between 3pm and midnight are charged at the local, cheap rate, runs until the end of December. For the whole of January next year BT will be running a Europe special offer.

Simply on the basis of economies of scale, the more calls that are made, the cheaper the cost of providing them becomes, allowing BT to reduce its charges still further.

It is true that customers who use the network less will benefit less from our recent price changes. But for the very low user, BT offers its Supportline giving half-price line rental and 30 free call units a quarter.

Of course, those who use the network more will still pay more overall than people making little use of it. But high users can benefit from either the automatic or optional discounts that BT offers.

It is sound and common commercial sense, practiced by many companies in all fields of business, to offer discounts to those customers who purchase a higher volume of the goods or services offered.

Michael Hepher,
group managing director,
BT Centre,
81 Newgate Street,
London EC1A 7AJ

OBSERVER

Taking the Miki

■ It is hard to remember a former British prime minister who has worked so hard at making serious money as Lady Thatcher. It is reckoned that she can command £30,000 for a speech in the US, and when her globe-trotting takes her further afield the fees are rumoured to be higher still.

However, Observer was rather surprised to learn of her latest plans to save the world in a two-page advert in Japan's Nihon Keizai Shimbun. In a special interview with Toshikazu Kadota, president of Miki, a relatively unknown firm which is diversifying into the field of women's wear, Lady Thatcher gives her thoughts on everything from personal happiness – "having a wonderful family life and a job you love" – to saving the environment.

Like many former leaders, Lady Thatcher is held in much higher esteem abroad than at home and her address to the Miki International Ladies' Forum only seems strange to a British audience. Even so, even Lady T might wince at knowing that her thoughts on saving the planet have been repackaged into a double-page spread promoting Miki prune extract.....

Ganging up

■ It's been a rough year for Japanese gangsters. They have been accused of consorting with the country's scandal-tainted politicians, and have watched in frustration as their often large, if speculative, investments in golf resorts landed deep in the bunker of bankruptcy. Perhaps nothing has angered the *yakuza* more than the acclaimed film-maker Juzo Itami, who mocked their manhood in a perceptive work entitled *Minbo no Onna*.

For his wicked wit, Itami was done over by five thugs in a car park last May, leaving him physically and mentally scarred – last week five gentlemen were arrested for the crime and gave their place of work as *Goto-gumi*, an affiliate of the country's largest gang, the *Yamaguchi-gumi*.

Book rights

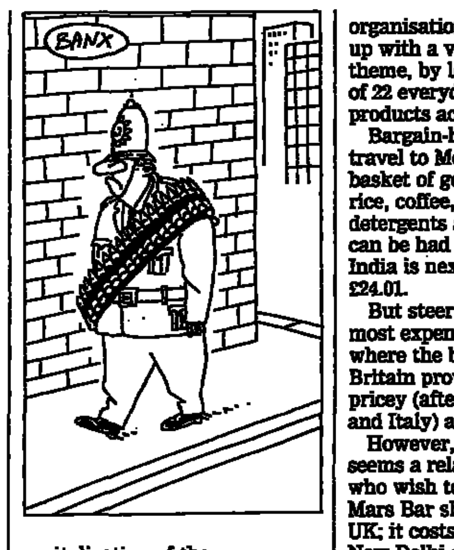
■ What's the difference between Tom Paine, the left-wing political writer, and Jeffrey Archer, the right wing Tory peer? While Lord Archer's fat tomes have been available in Swedish for years, only now is a Swedish version of Paine's revolutionary work, The Rights of Man, hitting the bookshops of one of the world's oldest democracies.

Just goes to show that for all Sweden's belief in individual rights, the country doesn't like rebels. Then again it might also show that the egalitarian Swedes have always been jolly good at reading English.

Pitched in

■ After a heady two years trying to run a brewery, Graham Axford, one-time corporate finance boss at James Capel, has returned to the trade he knows best. He has been made head of UK corporate finance at Credit Lyonnais Laing, which is getting a bit of a reputation as a rest-home for yesterday's go-getters.

Until last week, Axford was chairing the tiny Wiltshire Brewery – makers of Old Grumble and Old Devil beers – which he helped to bring to the stock market in 1990. However, his big plans for multiplying the market



capitalisation of the 130-year-old brewery, in which he had a sizeable stake, don't seem to have worked out and after some hefty losses, control has passed to UB Group, the Indian drinks giant.

The new hand on the pump at Wiltshire is one O'Neil Nalavadi who, in one sense, has already made a name for himself. On the day Nalavadi was born 31 years ago, the distinguished Australian cricketer, Norman O'Neill, scored a double century at Bombay cricket ground. Nalavadi's father simply linked custom – which said his son's name had to begin with an N – with his love of cricket. What a good thing Australia's rugby players do not tour India – imagine starting life as Ofahengaue Nalavadi.

Basket cases

■ Back in 1981 the FT floated the idea of designating the Mars Bar as an alternative currency. Observer has heard no whisperings in Treasury corridors about resurrecting the idea, but now the ubiquitous market research organisation Mintel has come up with a variation on the theme, by looking at the prices of 22 everyday consumer products across 13 countries.

Bargain-hunters need to travel to Mexico where the basket of goods – including rice, coffee, tea, shampoo, detergents and cigarettes – can be had for just over £20. India is next cheapest, at £24.01.

But steer clear of Iceland, most expensive of the lot, where the basket costs £76.81. Britain proved fifth most pricey (after Belgium, France and Italy) at £42.

However, though India seems a relative bargain, those who wish to get stuck into a Mars Bar should do so in the UK; it costs twice as much in New Delhi as in London.

Upside down

■ Even though Midland Bank is under new ownership, it cannot throw off its accident-prone image. Take the latest issue of its Meridian magazine.

The editor has written a guide to help Midland customers understand financial jargon and notes that a price-earnings ratio is calculated by "dividing the earnings per share by the price of one share". An easy mistake to make, and Midland says it was "purely a printing slip".

Dirty weekend

■ There must be easier ways of winning a weekend for two in Paris. Adams-Hydraulics, whose sewage-handling equipment is fitted to the QEII, has launched a competition to find the oldest Adams automatic sewage ejector still operational in the UK. Date of installation and serial numbers, please, to PO Box 15, York YO1 1XA.

FINANCIAL TIMES
Tuesday December 8 1992

Talks with aid agencies and warlords clear way for troop landings

Somalia awaits US intervention

By Julian Ozanne in Mogadishu

TWO American F-14 fighter jets flew low over the Somali capital Mogadishu yesterday, giving anxious Somalis their first glimpse of the US military force poised to land in Mogadishu tomorrow to protect relief efforts.

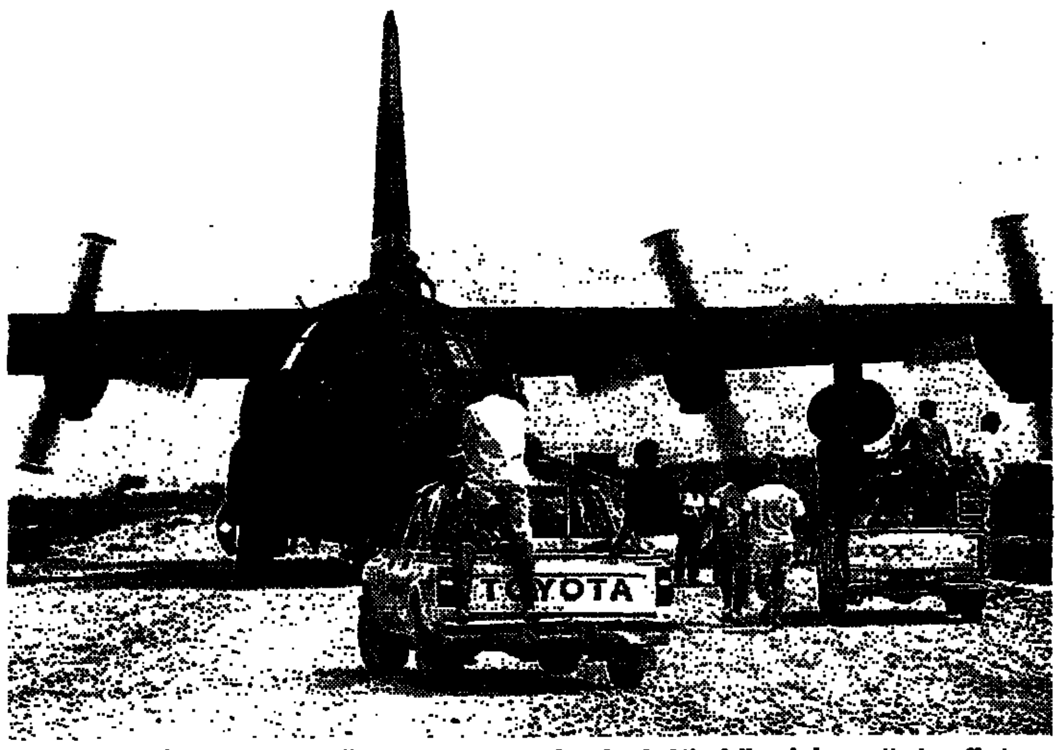
Mr Robert Oakley, US Ambassador-at-large, and Marine Brigadier General Frank Libutti later flew into the city to head liaison between US force commanders, relief agencies and Somalia's warlords on the American-led multinational intervention which is expected to number 28,000 to 36,000 troops by Christmas.

"This is a humanitarian operation, not a military operation. It is the opposite of Desert Storm," in which US-led troops retook Kuwait, Mr Oakley said after meeting aid agencies. "We hope it will remain a humanitarian operation," he added.

The final contingent of an advance party of 1,800-3,000 US marines and western correspondents completed their transfer last night from the Lt Jack Lumus to the USS Tripoli, a helicopter assault ship which is part of the US flotilla of five ships lying 30km off the Somali coast. The Lt Jack Lumus, a supply ship, also had a number of M1A1 Abrams tanks on board.

An expeditionary French force coming from neighbouring Djibouti may land at first light today either at Mogadishu airport or in the southern port city of Kismayo, scene of some of the worst inter-clan violence.

France yesterday appointed Marine General René Belhome to lead the 2,000-strong force. Mr Pierre Joxe, the French defence minister, has said the French force will secure Kismayo and be the first troops to land on Somali soil. France will also supply helicopters and aircraft.



A US military plane delivers supplies to Somalia yesterday ahead of the full-scale humanitarian effort

In Mogadishu yesterday secret police operating under the authority of General Mohamed Farar Aideed, Somalia's fiercest warlord, seized an Italian water expert working with Unicef, the United Nations children's agency. He had not been released by evening. Aid workers have suffered constant harassment and intimidation by Gen Aideed's forces for several months.

As the two aircraft from the USS Ranger carrier dropped flares, excitement spread rapidly across the city. Somalis poured out of their houses and sat on walls and balconies looking to the sky in expectation of an imminent landing. Hundreds flocked towards the airport where US troops are expected to land, shouting: "America – come America."

Heavy weaponry and armoured trucks with mounted anti-aircraft and anti-tank weapons were meanwhile being moved out of the city. Mr Dick Cheney, the US defence secretary, has said that US forces will disarm the rag-tag gunmen and marauding gangs which have terrorised Somalia for two years and prevented western food aid from reaching the starving.

Many gunmen also appeared to be hiding their weapons. Observers say troops loyal to the warlords and other Somali gunmen and bandits will fade into the background in the first few days of the US intervention. Later, if things go badly for a particular warlord or when the US troops pull out, they will be able to recover their weapons.

Speculation was high last night that France had struck a deal with Washington to allow French troops to take Kismayo, possibly before US forces land in Mogadishu.

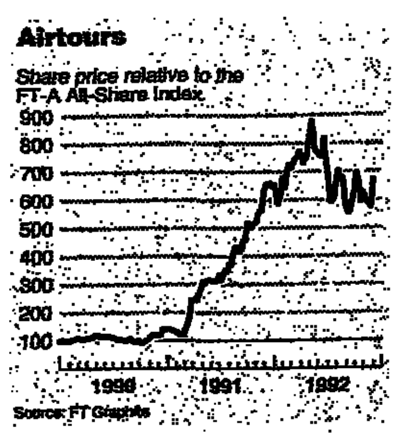
Observers say the chances of resistance to foreign soldiers are higher in Kismayo and that Paris wants a separate operation and a military objective of its own.

Traders scent bonanza, Page 4

THE LEX COLUMN

A fortifying deal

FT-SE Index: 2754.5 (-4.9)



It must have come as a relief to Forte to have found a buyer for its Gardner Merchant contract catering business after the embarrassing collapse of its deal with Compass. In theory the way is now open for the long-mooted diversification in continental Europe. As if to underline that point, Forte also yesterday announced a motorway restaurant deal with Accor in France. Later this week will come the formal announcement of its hotel venture with Agip in Italy. At long last Mr Rocco Forte has a firm answer to investors who have accused him of dithering over strategic direction.

One looks in vain, however, for much by way of additional earnings in the short run. True, the Gardner Merchant sale will produce a one-off contribution above the line of some £250m after adjustment for goodwill. The proceeds will reduce group debt, but the interest savings will be more than offset by the loss of Gardner's contribution. Forte is targeting a 30 per cent annual return for its residual equity stake, thanks to the high gearing involved in the venture. It will have to wait until flotation in four years' time to realise much of that gain.

As for Europe, Forte is positioning itself to become a leading player in motorway services but its hotel strategy is less convincing. Investment will be needed in both areas before they make a significant contribution. Forte has discovered some ingenious ways of expanding in Europe without committing much cash but necessity is the mother of invention. Interest cover will remain low despite the Gardner Merchant sale. Forte still badly needs a recovery in its basic hotel business and it is starting to look as though it could be 1994 before that takes strong hold. On that basis the shares look over-priced.

S&N

The market was obviously prepared for something rather worse than a 6 per cent drop in pre-tax profit at Scottish & Newcastle. The northward spread of the recession is apparently affecting S&N less than other brewers. But it would be wrong to get carried away. Yesterday's 3 per cent jump in the share price is more a correction of recent underperformance than a sign that any particular corner has been turned.

There is no disputing S&N's natural advantages – strength in the take-home trade, premium brands and geographic business spread. Equally, though, the recovery of margins in the off-trade remains fragile, while devaluation must sooner or later eat away at the margins on Beck's. Arguably, too, the company has been a little slow in exploiting the food and thematic scope of its retailing side.

In an ideal world, diversification into leisure would have compensated for lack of growth in beer. Yet Pontins seems to have become caught up in the recession. The company is vague about the growth rates being achieved by Center Parcs. Occupancy rates remain high and presumably the spend per visitor will pick up with the economy in the UK. However with the recession clouds gathering over the continent and incipient recovery in the US, it is just possible S&N may, for a while at least, look with envy on Bass's investment in Holiday Inn.

Henderson/Touche

On an optimistic reading of the cycle, Henderson Administration could hardly have chosen a better time to exchange its cash for earnings geared to the equity market. The All-Share Index has risen by 7 per cent since its acquisition of Touche Remnant was first mooted in mid-October. The returns on cash, meanwhile, are not what they were. Strange, then, that Henderson's shares have notably underperformed following the initial euphoria over the deal. Yesterday's 7 per cent rise simply retraces some of that lost ground. True, the sudden departure of Mr David Backhouse last month was an unwelcome distraction, but Henderson has yet to convince that it is spending wisely.

The £42.5m purchase price looks sensible enough, although Société Générale doubtless thought as much when it paid £50m in 1989. Stable earnings from investment trusts are a neat fit with Henderson's strength in pension fund management, yet Touche will barely break even this year on £2bn funds under management. Henderson shareholders might feel they were more secure with the cash pile. The success of the deal turns on Henderson's ability to take out costs without prompting the best of its newly acquired talent to walk out the door.

Handing over Touche's lease to its former parent is an encouraging start. Equally there should be savings from combining back office and administration. But it remains to be seen whether the two sides can avoid falling out during the subsequent pruning of manpower. With the shares on an 8 per cent yield – even after yesterday's rally – the market is clearly not taking much on trust.

Airtours

The problem facing Airtours this year was always going to be what it could produce by way of an encore. After lifting its profits four-fold and share price six-fold in 1991, as it picked over Mr Harry Goodman's collapsed International Leisure Group, Airtours has since been faced with the far harder task of expanding in a sticky market full of prickly competitors. Unsurprisingly, therefore, its shares have disappointed this year. Even after full-year profits growth of 53 per cent, Airtours' forward multiple continues to languish at less than nine.

This summer's erosion of trading margins as a result of a flurry of discounting was certainly a potent reminder of one of the industry's nastier habits. Airtours can, however, count on the benefits from the Pickfords' integration and boasts cash in the bank to fund continued expansion of its travel agency arm. As a vertically-integrated operator, Airtours should be well-placed to pick up extra business as well as improve its utilisation levels, which are crucial for the industry's profitability.

City sentiment may mellow as the travel industry matures and the regulatory authorities impose tougher financial straitjackets to the detriment of the fly-by-night merchants. Airtours' record of cautious management would certainly justify the benefit of the doubt; the industry's worrisome history, however, suggests investors are unlikely to be so charitable.

'No' vote puts Swiss on economic obstacle course

By Ian Rodger in Zurich

"We have just built an obstacle for ourselves. We now have to find a way to get around it."

This was how Mr Jean Rodolphe de Salis, Switzerland's most respected historian, yesterday summed up his country's rejection of the European Economic Area – a vote which potentially leaves Switzerland isolated within an integrated Europe.

The overall reaction to Sunday's referendum appeared a mix of angst and confusion – tinged with a modicum of Swiss-style indifference. "The world couldn't care less about Switzerland's relations with Europe," said Mr Silvan Trachsler, head of equity research at Union Bank of Switzerland, explaining why Swiss financial markets yesterday closed virtually unchanged.

Other financial analysts registered disappointment at the outcome. "We Swiss may get up early, but we wake up late," one Zurich banker said yesterday.

Many German Swiss speakers, who voted by a large margin against joining the EEA, had clearly been worried that closer ties with Europe would bring disadvantages through more immigrants or increased unemployment. There was, however, near universal surprise that these fears were strong enough to overwhelm economic self-interest. Normally fewer than half of German Swiss voters turn out for plebiscites. This time more than 80 per cent voted, and 61 per cent said No.

Even the leaders of the anti-EEA forces seemed perplexed, emphasising that they did not seek isolation. Instead, they claim that Switzerland must press ahead with liberalising its structures and markets.

"We want to have good relations with each of the European states and with the European Community," said Mr Christoph Blocher, leader of the anti-EEA campaign and chairman of the Ems-Chemie chemical group, who used every conceivable populist slogan to sway the campaign his way.

In reality, as a small country with modest resources, Switzerland knows it has only limited control over relations with the rest of Europe. Both EC and Swiss government officials have warned that the EC will be too busy in the future to devote much time to developing bilateral relations with Switzerland.

As the EEA and the single market develop, Switzerland will be isolated in a number of important ways, whether it likes it or not. There will, for instance, be no automatic freedom of movement of people between Switzerland and other EEA countries.

More important economically, Swiss industrial products will not automatically be accepted as meeting EEA standards. Delays on Swiss imports imposed by EC authorities' examinations could be disruptive.

Mr Blocher says confidently that the EC will not do anything to hurt the country which is its second largest trading partner, but many Swiss companies are already thinking of relocating production to EC countries.

Swissair, the national airline, will suffer as a result of not being able to participate in the gradual liberalisation of air traffic within the EEA. The airline's hopes for *minimising its disadvantages* in Europe rest on negotiations for a new bilateral agreement with the EC due to begin soon.

Mr Walter Frey, a leading anti-EEA campaigner, plans to introduce legislation to change Switzerland's immigration policy but even if Switzerland opens its doors to more EEA nationals, EEA countries are under no obligation to reciprocate.

If the cost of remaining outside the EEA turns out to be high, the Swiss will probably move quickly to change course.

$3.5bn of Airbus orders are cancelled

By Nikki Tait in New York

NORTHWEST AIRLINES, the fourth largest US carrier, yesterday announced the cancellation of $3.5bn of orders from Europe's Airbus Industrie as part of a financing package which should ensure its immediate survival. The airline also delayed delivery of Boeing aircraft worth $2.7bn.

Northwest has secured a new $250m credit facility, with the lending consortium including KLM, Bankers Trust, ABN-Amro, and suppliers like Airbus and United Technologies. The Dutch airline acquired a minority stake in Northwest in the 1989 leveraged buy-out which led to its current debt problems.

Northwest's lenders agreed to reschedule $340m of debt repayments due in 1993. There had been fears that a cash shortage would force Northwest to seek bankruptcy protection unless a facility was forthcoming.

The US carrier has secured financing commitments worth $730m for 18 aircraft - 16 Airbus A-320s and two Boeing 747-400s - due to be delivered in 1993, but will cancel future orders for 24 A-340s and 50 A-320s worth a total of
$3.5bn. It will also delay delivery of four Boeing 747-400s and 40 757s, with a net value of $2.7bn.

The package also involves labour concessions from the six unions represented at the airline. These are reckoned to be worth $300m a year between 1993 and 1995. Final terms are being negotiated.

Indian crisis

Continued from Page 1

New Delhi and the walled city of Jaipur. In Uttar Pradesh, where the army staged flag marches, 35 deaths were reported.

Calcutta was paralysed by a strike called by trade unionists. Similar strikes are due to be held in other big cities today.

Tensions spilled over to India's predominantly Moslem neighbours, Pakistan and Bangladesh, with reports of violence from the Bangladeshi capital Dhaka and a countrywide strike call from the Pakistani government. Iran and the 50-member Organisation of Islamic Conference described Sunday's incident as "an act of extreme fanaticism".

Battle looms at Edinburgh

Continued from Page 1

Mr Albert Reynolds, the Irish prime minister sided firmly with his southern European allies in seeking a generous settlement.

The UK draft on Denmark chose a middle path between Euro-federalism and Danish minimalism on Maastricht, with ministers gambling that fear of failure would galvanise the Twelve member states to reach an agreement and end the uncertainty over the Community's future.

Denmark is pressing for a legally-binding agreement for a UK-style legally opt-out on a single European currency, a putative European army, EC citizenship and wider EC co-operation on justice and immigration.

The UK paper is described as a free-standing international agreement binding by law which falls short of re-opening the Maastricht treaty or requiring re-ratification by member states.

Mr Tristan Garel-Jones, British junior foreign office minister, described the UK paper as a first stab at reaching a deal, adding: "When you look at the individual dossiers you get very depressed about it. But underlying this everybody wants an agreement."

One objection raised by more federalist-minded states such as Belgium, Luxembourg and Spain is that Danish demands risk turning the EC into a Community *à la carte* and encouraging future applicants to do the same.

TWA deal

Continued from Page 1

them off – and pursue Mr Icahn through the courts.

Yesterday, the various parties involved said that a plan of reorganisation should be filed with the bankruptcy court in January. If this is done it could allow the airline to move out of Chapter 11 bankruptcy protection in the next year.

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F			°C	°F			°C	°F
				Boulogne	S	11	52	Frankfurt	R	3	37	Majorca	F	19	66	Oporto	F	12	54	Tenerife	C	20	68
				Brussels	R	8	46	Geneva	R	6	43	Malaga	F	20	68	Oslo	C	0	32	Tokyo	F	14	57
				Budapest	C	4	39	Gibraltar	F	19	66	Malta	S	19	66	Paris	C	8	46	Toronto †	Sn	-1	30
Ajaccio	R	15	59	Buenos Aires	C	28	82	Glasgow	R	6	43	Manila	C	30	86	Prague	S	2	36	Tunis	F	20	68
Algiers	F	22	72	Cairo	S	21	70	Helsinki	Fg	2	36	Melbourne	C	17	63	Reykjavik	C	-2	28	Valencia	F	18	64
Amsterdam	C	7	45	Cape Town	S	25	77	Hong Kong	F	26	79	Mexico City		-	-	Rhodes	T	15	59	Venice	F	5	41
Athens	S	16	61	Caracas	F	30	86	Innsbruck	F	0	32	Miami †	S	19	66	Rio de Janeiro	C	33	91	Vienna	S	4	39
Bahrain	S	21	70	Casablanca †	F	20	68	Inverness	C	6	43	Milan	R	6	43	Rome	C	13	56	Warsaw	C	3	37
Bangkok	C	32	90	Chicago †	C	-3	27	Islamabad	F	20	68	Montreal †	Sn	-2	28	Salzburg	C	2	36	Washington †	C	3	37
Barcelona	F	16	61	Cologne	F	6	43	Istanbul	F	13	55	Moscow	S	0	32	S'Francisco †	C	9	48	Zurich	C	3	37
Beijing	S	7	45	Copenhagen	C	4	39	Jakarta	R	31	88	Munich	R	1	34	Seoul	R	9	48	Temperatures at midday yesterday			
Beirut	S	20	68	Corfu	F	14	57	Johannesburg	S	24	75	Nairobi		-	-	Singapore	F	30	86	† Noon GMT temperatures			
Belfast	C	7	45	Dallas †	C	3	37	Lisbon	F	16	61	Naples	F	15	59	Stockholm	C	1	34	C – Cloudy Dr – Drizzle			
Belgrade	C	3	37	Dublin	C	7	45	London	S	9	48	Nassau	C	27	81	Strasbourg	F	8	46	F – Fair Fg – Fog H – Hail			
Berlin	C	2	36	Dubrovnik		–	–	Los Angeles †	F	13	55	New Delhi	S	21	70	Sydney	C	18	64	R – Rain S – Sunny			
Biarritz	R	9	48	Edinburgh	R	6	43	Luxembourg	R	6	43	New York †	C	2	36	Taipei	F	27	81	Sl – Sleet Sn – Snow			
Bombay		–	–	Faro	F	19	66	Madeira	S	21	70	Nice	C	7	45	Tangier	C	19	66	T – Thunder			
Bordeaux	F	10	50	Florence	R	6	43	Madrid	F	10	50	Nicosia	S	19	66	Tel Aviv	S	20	68				

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INSIDE

Swiss markets shrug off voters 'No'

Swiss financial markets yesterday shrugged off the Swiss rejection on Sunday of the European Economic Area. But many analysts believe the value of most Swiss equities will be hurt by the vote to remain outside the European single market. Back Page

Farmers caught out in the rain

Many areas of the UK have had a full average year's rainfall in just four or five months. If the weather does not improve soon, losses of this year's crops still in the ground, and some of next year's crops not yet planted, could rise to alarming levels. Some commentators blame farmers. After a series of dry, easy autumns, they say, farmers thought that this was the pattern for the future and forgot how to plan ahead and deal with a wet one. Page 26

Bidders queue for Qantas

The privatisation of Qantas, the Australian airline, reaches a crucial stage tomorrow when three foreign airlines are expected to deliver detailed bids. The bids, from British Airways, Singapore Airlines and Air New Zealand will lay the groundwork for the sale of up to 49 per cent of Qantas to corporate and institutional investors. The government will then float the balance of the shares on the Australian Stock Exchange. Page 19

Westland raises dividend

Westland, the UK helicopter group, raised its annual dividend from 4p to 4.25p a share after reporting an 11 per cent rise in pre-tax profits for the year ending October 2. Pre-tax profit increased to £26.3m ($41.4m) from £23.7m, after lower job restructuring costs this year led to exceptional charges of £3.8m compared with £7m the year before. The results brought Westland profits back to their 1990 level. Page 22

Tadpole grows up

The moment of metamorphosis at Tadpole Technology, the small electronics company, may be at hand. Tadpole, with headquarters in Cambridge, England, and Austin, Texas, leapt from the OTC market to a full listing – raising sufficient funds on the way to put its finances on a sound footing for the first time since its foundation in 1984. Page 24

Spotlight on Metro tactics

Metro is about to rival US giants Wal-Mart and K mart as one of the world's largest retail companies. The German company last week won approval from German cartel authorities for its plans to buy a majority stake in Asko Deutsche Kaufhaus, a large but financially stretched retail group. But there are longstanding grievances about what competitors call Metro's "brutal" and "unfair" tactics. Page 18

Market Statistics

Companies in this issue

Chief price changes yesterday

FRANKFURT (DM)

Rises			
Asko	685	+	30
Degussa	334.5	+	7.3
PWA	152	+	6
Viag	338.8	+	7.8
Falls			
Rheinelektra	825	–	7
Zanders	208	–	12

NEW YORK ($)

Rises			
Am Express	24 7/8	+	1 3/8
Gtech	37 1/8	+	2 7/8
Kirschner	9 3/8	+	1 3/8
Pennzoy	77 5/8	+	1/2
Falls			
Family Dollar	22 1/2	–	3/4
ICN Pharm	7 3/8	–	7/8

New York prices at 12.30.

PARIS (FFr)

Rises			
Axa	987	+	17
Radiotechn	271	+	15
Schneider	568	+	5
Falls			
Ecco	355.5	–	9
Euro RSCG	435	–	10
Havas	421	–	13.5

TOKYO (Yen)

Rises			
Fuji Robin	349	+	29
Showa Mining	178	+	13
Tokyo Nissan	625	+	50
Falls			
Fujitsu Denso	520	–	40
Isetan	2350	–	250
Nippon Seiro	190	–	20

LONDON (Pence)

Rises							
Aitken Hume	56	+	6	Scot Newcastle	413	+	12
Brit Aerospace	141	+	7	Sleepy Kids	21 1/2	+	3
BT	18	+	3	Spring Ram	101	+	9
EMAP	313	+	10	Stakis	37	+	3
Faber Prest	345	+	15	Thorntons	185	+	7
Gibbon Lyons	71	+	9	Tunstall	309	+	10
Henderson Admn	685	+	47	Wheway	234	+	17
Hepworth	260	+	10	**Falls**			
Kwik Save	775	+	24	Amstrad	24	–	4
Lex Service	253	+	10	Cupid	53	–	32
Midlands Radio	114	+	9	Eurocopy	37	–	4
Morland	440	+	20	Greycoat	6 1/2	–	3 1/2
Quality Care	188	+	8				

Vereinsbank and Dresdner achieve robust growth

By David Waller in Frankfurt

TWO MORE large German banks reported robust growth in profits for the first 10 months of the year, providing further evidence of the resilience of the banking sector amid deepening economic gloom for Germany.

But both Dresdner Bank and Bayerische Vereinsbank warned about the need for sharply increased risk provisioning as the economy deteriorates.

Dresdner Bank, Germany's second largest bank, reported group total operating profits up 15.6 per cent to DM2.37bn ($1.5bn).

Partial operating profits – which exclude any contribution from own-account trading – rose by nearly 19 per cent to DM2.091bn.

· Bayerische Vereinsbank said its group partial operating profits rose 20.5 per cent to DM1.2bn.

At the parent bank, partial operating profits climbed more than 25.3 per cent to DM775m. The bank said full operating profits for both parent company and group climbed at a higher rate, but gave no concrete figure.

Mr Wolfgang Röller, chief executive of Dresdner Bank, warned that when the full-year accounts were drawn up the bank would have to make significant provisions to cover bad and doubtful debts.

He said this reflected the state of the economy and the generally "unsatisfactory" credit environment rather than exposure to a number of large, individual risks in Germany or in foreign markets.

Mr Albrecht Schmidt, chief executive of Vereinsbank, also said the need for provisions had increased significantly as a result of the economic slowdown.

Mr Röller insisted that in spite of the provisioning needs, the level of overall profitability would be "satisfactory".

At Dresdner, total lending volume rose 3.1 per cent to DM235bn over the 10 months. Net interest income rose nearly 10.6 per cent to DM4.87bn and commission income climbed 15.5 per cent to DM1.92bn. Operating expenses within the group rose 9.2 per cent to DM4.7bn.

● The Federal Cartel Office in Berlin has decided that proposed business co-operation between Dresdner Bank and Allianz, the German insurer, can go ahead, it was announced yesterday.

The co-operation envisages a cross-marketing of each others' services across Germany.

Forte sells catering unit to CinVen but keeps 24.8% stake

By Michael Skapinker, Leisure Industries Correspondent

FORTE, the UK hotel and restaurant group, yesterday announced the sale of its Gardner Merchant contract catering subsidiary to a consortium led by venture capital company CinVen, but said it would retain a 24.8 per cent stake.

It also said it was acquiring 52 motorway restaurants and four hotels in France from the Accor hotel group for FFr540m ($100.5m). Forte will announce details tomorrow of a joint venture with Agip, the Italian state-owned petrol company, to manage 18 hotels in Italy.

Forte will receive £342m ($539m) in cash for Gardner Merchant, including repayment of inter-company loans. It will also get £29.6m in deep discount bonds and £28.6m in redeemable preference shares. It will receive £1.9m in ordinary shares and convertible redeemable preferred ordinary shares which will represent, on a diluted basis, 24.8 per cent of Gardner Merchant.

Forte said Mr Garry Hawkes, Gardner Merchant managing director, would continue to run the business and, with other senior staff, would subscribe for 8 per cent of the company.

Mr Rocco Forte, Forte chairman, said his group had been offered the alternative of more cash but had decided to take a higher equity stake. He said the investors in Gardner Merchant hoped to float the company in four years' time.

Mr Forte said the purchase of the restaurants in France would give Forte a 40 per cent share of the country's motorway catering business, second only to Accor.
Lex, Page 16

Deborah Hargreaves on why the price of crude has fallen

Opec's message to oil traders falls on deaf ears

NERVOUS futures traders in New York and London have sent the oil price down after the Organisation of Petroleum Exporting Countries has failed to convince them it can discipline the production of oil.

The price of North Sea Brent crude has fallen by almost $1.50 a barrel following Opec's meeting at the end of November, adding up to a drop of $3.50 a barrel since October.

The price of Brent for January delivery was $18.15 a barrel in London last night.

The problem for Opec members – most of who *urgently* need higher oil revenues to revive their struggling economies – is that market traders have little confidence that the producers' club can staunch the flow of oil from its members' pumps. In spite of agreeing to cut production in Vienna, Opec members saw prices fall rather than rise by $1 or $2 a barrel as they *had* hoped.

Opec's task of talking up oil prices has been made more difficult by a rise in stocks of oil products such as gasoil, or diesel, which are held by companies and consumers over the winter. This has been accompanied by milder weather than was forecast, depressing demand.

Companies do not like to tie up their cash by holding stocks when demand is low and spring is approaching.

Traders fear that this extra oil could start flooding on to the market early next year if there is no recovery in demand.

Traders have been nervous since October when stocks started to increase, an unusual event for that time of year. Refineries in Europe and the US were running at high production rates which, combined with depressed demand, led to excess supply. European stocks of fuel oil, for example, rose to 144m barrels at *the end of October, compared* with 137m barrels at the same time last year, according to one market observer.

Opec members were also flouting September's agreement to trim output.

Most members pumped as much as they could with the result that production was more than 25m barrels a day (b/d) in November rather than the agreed ceiling of 24.2m b/d.

Now Opec wants oil traders to believe that it will slice into its output to cut production to 24.58m b/d between December and March to bring supply and demand into a steadier balance. It has even shared out production allocations among members to reinforce their commitment to the agreement – the first time it has managed to do this without any country making an official objection to its share since the Gulf war.

But the Opec accord, like most of the club's recent deals, has massaged production figures to try to gain acceptance for the deal from among the cartel's fractious members.

This means the accord does little more than sanction current over-production.

"The Opec agreement just does not go far enough. The market has no faith that Opec can make the cuts needed," said Mr Andy LeBow, a New York trader with ED&F Mann, an international trading house.

The latest accord excludes Ecuador which has opted to leave the producers' club.

Ecuador was producing around 300,000 b/d in November and once this is deducted from Opec's overall output that month of 25m b/d it brings production to 24.7m b/d. This implies a cut in production for the remaining Opec members of just over 100,000 b/d for the first quarter of next year to reach the new ceiling of 24.58m b/d – hardly the substantial reduction that traders had been expecting.

Moreover, Kuwait has been given room to exceed its production allocation of 1.5m b/d if market conditions allow. The emirate has said it wants to produce 1.75m b/d as it rebuilds its oil industry after the Gulf war. Iran *is intent on building its capacity* and has previously flouted production constraints.

"The market always expects too much from Opec," said Mr Joe Stanislaw, at Cambridge Energy Research Associates, the industry consultants, "this agreement is the best that could be achieved given the conflicting political objectives. But it is not enough."

Political conflicts within Opec have partly stymied the organisation's attempts at managing oil supply. Since the Gulf war, Saudi Arabia and Iran have been involved in a tussle for oil market share which has dictated Opec policy.

Both countries have resisted making cuts in their own output. In fact, Iran has been engaged in a drive to increase its production capacity which it says could reach 4.5m b/d by March. This has led to resentment among many of the smaller, debt-laden producers.

"If you have the ability to do damage in the market, you are listened to at Opec," said Mr Taiwo Idemudia, general manager of the Nigerian National Petroleum Company's London office.

The market could really be weakened if member nations do not implement even the modest production cuts envisaged in the November deal.

In February, when Opec meets again, demand for its oil will be fast declining as the industry prepares for warmer weather. The organisation must agree to bigger cuts then, if it is not to see a full-scale price collapse.

"I think we will face a big fight in three months," said Mr Hacene Mefti, Algeria's energy minister, after the last Opec meeting.

The fight is likely to come over market share when Opec gets around to dividing up a much smaller production ceiling among its members.

More painful cuts will also have to be made once Iraq is allowed to export oil again. Baghdad is currently barred from the export market by United Nations sanctions imposed after the Gulf war. When it returns to the market, other nations will have to implement cuts to accommodate it.

Mr Vahan Zanoyan, senior director of the Petroleum Finance Company in Washington, believes that Opec could achieve production cuts necessary to boost prices if it is desperate enough.

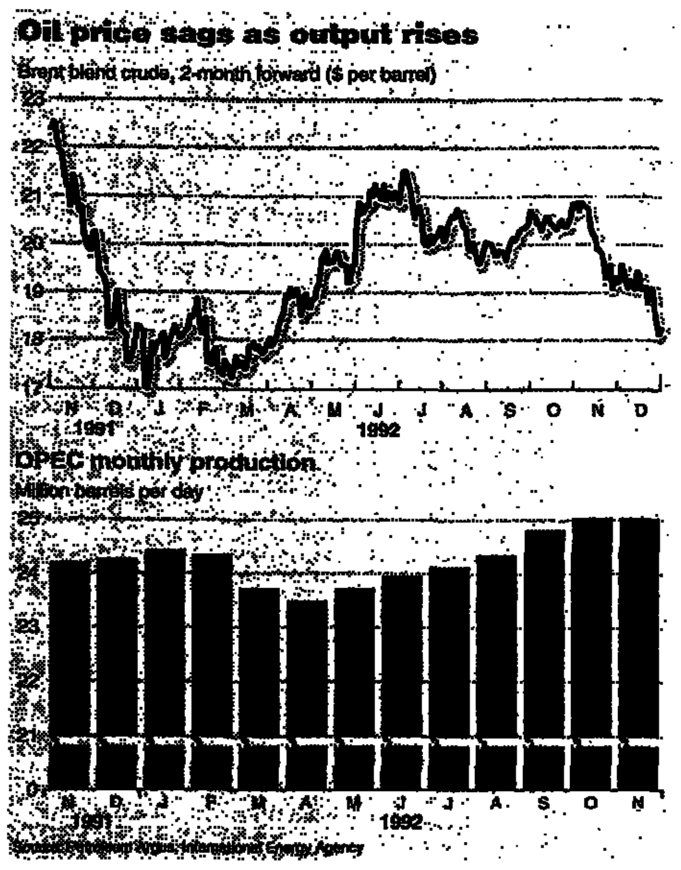
"Opec's failures have rarely been because of a lack of arithmetical solutions to their problems but because of a lack of political will and differences in short-term price objectives." The organisation has, in the past, been jolted into decisive action by an imminent crisis in the market such as a big price collapse.

Opec could still be helped out by colder winter weather which would push up oil usage, or a threat to supplies from a political crisis in Russia – the world's biggest oil producer.

But what is really needed for a sustained recovery in prices is a faster-than-expected economic recovery.

Recent economic statistics from the US suggest that there the recession may be ending. The market was also encouraged by demand estimates from the International Energy Agency, the Paris-based monitoring body, on Friday which expects world demand to reach 68.6m b/d in the first quarter. This is higher than Opec's own estimate for demand of 66.48m b/d.

But there is unlikely to be any rapid rise in oil prices: for the next month at least uncertainty over action by Opec members, combined with full stocks and weak demand is likely to keep prices low.



Recession takes 6% off Scottish & Newcastle profits

By Philip Rawstorne in London

FIRST half pre-tax profits from Scottish & Newcastle, the UK brewing and leisure group, declined 6 per cent from £115.7m ($175m) to £108.4m as the recession bit deeply in the north of England and Scotland.

"While the continuing low level of consumer confidence, and the consequent reluctance to spend, were more restricted last year to the south, this year they have been much more widespread," said Mr Brian Stewart, chief executive.

"In terms of fundamental underlying economic conditions, it must be recognised that there has, to date, been no consistent evidence of any significant upturn," he added.

Fully-diluted earnings per share for the six months to November 1 fell from 18.2p to 18p. The interim dividend is raised 4.5 per cent to 5.76p.

Taxable profits were hit by a £3.3m increase in interest charges and a £2.2m reduction in the surplus on property disposals.

At the trading level, group profits were 2 per cent down to £118.2m on turnover 4 per cent ahead to £760.7m.

A 31 per cent increase in bad debt provisions to £6.3m contributed to a reduction in beer profits from £54.2m to £51m. Turnover rose from £430.7m to £445.6m. Volume sales were 0.5 per cent lower against a market fall of about 2 per cent.

The performance of the group's premium brands – McEwan's Export, Theakston's and Beck's – had "given cause for considerable satisfaction", said Mr Stewart. *Retail* profits dropped from £29.4m to £28.4m on marginally higher turnover of £145.4m. Rigorous cost control helped to offset the impact of more difficult trading conditions, and investment continued in the development of the group's pubs.

Leisure operations recorded an increase in profits from £37.1m to £38.8m on turnover 7 per cent higher at £169.7m.

Center Parcs, with occupancy levels of more than 90 per cent, continued to achieve "outstanding profit growth". Bookings strengthened after some early weakness in the Benelux market; and operations in France, where a new centre will be opened next year, consolidated 1991 improvements. However, Pontin's UK earnings fell because of the recession.
Lex, Page 16

Barclays may split senior roles

By John Gapper, Banking Correspondent

MR ANDREW BUXTON, chief executive of Barclays Bank, promised yesterday that the bank would respond to shareholder pressure to split the roles of chairman and chief executive by devising a new senior management structure.

The bank would alter its corporate governance "in the long term", he said in an interview with the Financial Times.

This could mean the appointment of a new chief executive after Mr Buxton becomes chairman in January, or giving a committee of non-executive directors power to dismiss the chairman.

"In the long term, we will take notice of what shareholders are saying, and we will take steps to split the job," Mr Buxton said. He acknowledged that institutional investors had made clear that this was what they wantedin meetings with the bank.

Mr Buxton was unable to specify when a decision would be made. Controversy over the dual role had only emerged in the past two months.

A company of the size and complexity of Barclays could not alter its management structure "without thinking through the ramifications".

Controversy over the combined role has grown with speculation that the bank could be forced to cut its final dividend because of poor results.

It has also been fuelled by Sir Adrian Cadbury's report on British corporate governance. He favours dividing the

roles of chairman and chief executive.

Mr Buxton said it was "unlikely" he would become chief executive under a new chairman. But the bank would consider one suggestion from investors that he might become executive chairman reporting to a committee of non-executives.

"I think that kind of thing might be quite possible," he said. The bank had to consider the best way of altering its proposed structure under which four heads of divisions – three of them titled "chief executive" – will report to him.

The bank had already started to put in place new strategies to restore its profitability over the next five years. Mr Buxton believed that it would take two years before it achieved his planned changes.
Imry refinancing, Page 22

Rationalisation helps Incentive advance 57%

By Christopher Brown-Humes in Stockholm

INCENTIVE, the Swedish industrial group dominated by the Wallenberg family, saw profits rise 57 per cent to SKr222m ($32.4m) in the first nine months as the benefits of rationalisation helped offset the impact of recession in key markets.

The result compares with a profit of SKr141m in the first nine months of 1991 and is higher than the SKr218m profit achieved for the whole 1991 year. Profit per share, excluding non-recurring items, was unchanged at SKr5.50.

If income from Incentive's large shareholdings in Asea, Electrolux and Esab are included, profits rose to SKr799m from SKr780m.

The improvement came despite the impact of disposals and weaker markets, which reduced sales to SKr8.44bn from SKr10.48bn, and the drop in new orders to SKr8.48bn from SKr11.89bn.

A number of *Incentive companies* – including construction and environment groups Tour & Andersson and Munters, plus camera group Hasselblad – strengthened their positions despite an adverse economic environment. Weak areas included the materials handling and process divisions.

Degussa moves ahead 12% to DM200m

By Christopher Parkes in Frankfurt

DEGUSSA, the German metals, chemicals and drugs group, increased pre-tax profits by 12 per cent last year, in spite of losses in its important metals division.

Cost-cutting and reduced investments helped improve earnings to DM200m ($125.7m) after a 44 per cent profits slump in the previous year.

Turnover was down 4 per cent at DM12.8bn, mainly because of a 22 per cent fall in precious metals sales.

Chemicals suffered from lower prices, but sales rose 1 per cent and profits improved.

Meanwhile, turnover from pharmaceuticals, the smallest of the group's core businesses, increased 33 per cent to DM1.75bn.

The proposed dividend is unchanged at DM7. The company said there was no sign of an early recovery. Increasingly recessive tendences, detected in the last quarter of the year under review, had continued in the early part of the new financial year, especially inside Germany.

After allowing for the effects of acquisitions, Degussa reduced its workforce by 2,000 people.

Airtours gains 32.7%

By Michael Skapinker, Leisure Industries Correspondent

AIRTOURS, the tour operator, announced pre-tax profits up 32.7 per cent to £36.5m for the year to end-September.

It said it was considering purchases of travel companies in the UK and elsewhere in Europe

Mr David Crossland, chairman, said the company carried 1.7m passengers, against 1m in 1991 – a UK market share of 13 to 14 per cent, compared with market leader Thomson's 29 per cent. Turnover was up 40 per cent to £405.6m, but the profit margin was down because of price-cutting in May and June.

Lex, Page 16

Secretive retailer extends its tangled web of interests

David Waller looks at Metro's plans to acquire a majority stake in Asko Deutsche Kaufhaus

METRO is one of the most secretive and most controversial *companies* in Germany, if not the whole of Europe. It is getting bigger, more controversial – and not a jot less secretive.

Metro, domiciled in Switzerland like Mr Otto Beisheim, the man who founded the group 28 years ago and is still its biggest shareholder, last week won approval from Germany's federal cartel authorities for its plans to buy a majority stake in Asko *Deutsche Kaufhaus*, a large but financially-stretched German retail group. This will take sales in Germany to DM60bn ($37.7bn) or more this year.

The transaction means that Metro will rival US companies Wal-Mart and K mart as one of the world's largest retail groups. It will consolidate its position as one of Germany's largest companies, a rival in turnover terms to industrial leaders such as *Daimler-Benz* and Siemens.

The deal is likely to give the group a market share of 20 per cent or more in the German food retailing sector, and large market shares in furniture, textile and DIY retail as well. It will also accelerate the process of concentration in the retail sector, leaving just three companies – Metro/Asko, Tengelmann and Rewe, with total market share of about 50 per cent.

It has revived grievances about what competitors call Metro's brutal and unfair commercial tactics. The influential HDE, the association of German retailers which represents 460,000 retail businesses, has been fighting Metro in the courts for 7½ years – accusing it of breaching numerous retail laws – and has vowed to intensify the battle in the wake of the federal cartel office's decision last week.

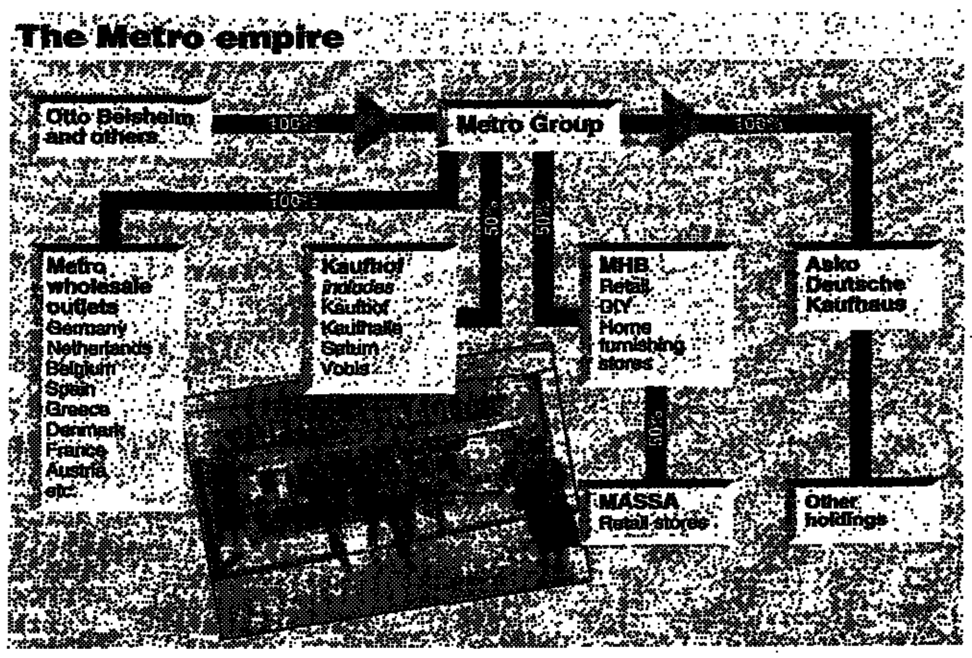
Size considerations apart, it remains unclear why Metro has made its latest move, as the loss-making Asko is suffering the consequences of a take-over spree in the late 1980s, culminating with the acquisition of Co-op in 1989. With turnover of about DM20m expected next year, it has net debt of DM5bn which it has to finance out of the slimmest of operating margins.

"I am convinced that the 1992-93 result will be a complete disaster," says Mr Hans-Peter Wodniok, head of German research at James Capel in Frankfurt.

Last year, the Asko parent company made a net loss of DM269m after a profit of DM106m in 1990, reflecting high write-offs against acquisitions. "It has the worst balance sheet in the whole of corporate Germany, and a rights issue would seem to be essential."

In addition, the retail sector is plagued by intense competition.

The consumer spree of the late 1980s is over and prospects are blighted not only by the economic slowdown but also by the likelihood that taxes will rise and wage rises start to fall in the years ahead.



The deal could, some suggest, have positive tax implications for Mr Beisheim, one of Switzerland's richest men. Alternatively, it could be a way of ensuring that Asko does not sink under its debt burden. All are agreed that it will add to the Metro group's already formidable purchasing power, but questions are raised about where the money for the purchase will come from.

There is no opportunity to put these, or any other questions to the company, as the company does not speak to the press.

Mr Beisheim, 68, who founded the business in 1964 when he opened his first store (modelled on the US cash and carry concept) has withdrawn from day-to-day management of the business and leads a reclusive life moving between homes in France, Italy, Switzerland, Florida and California.

All press enquiries are directed to Mr Erwin Conradi, the 58-year-old chief executive who manages the business from an office above one of the group's stores in Düsseldorf. Calls are put through to his secretary who politely, but firmly, tells callers that Mr Conradi is too busy to respond.

The group's structure, like its public relations policy, is inscrutable, a veritable tangle of holdings and cross-holdings giving the Swiss parent control of an estimated 180 companies.

One of its biggest holdings is a majority stake in Kaufhof, one of Germany's largest, quoted retail groups. Others include the Massa discount stores group, the computer chain Vobis and Pelikan, the office supply group. Via Asko, it controls Co-op, the AVA department stores group and the Adler clothing stores chain.

Noteworthy among the web of interests are the group's links with Westdeutsche Landesbank Girozentrale (WestLB), the aggressively-managed public sector bank based, like Mr Conradi, in Düsseldorf.

The bank, one of the biggest in Germany and with an active approach to the way it manages its extensive portfolio of industrial interests, owns a 10 per cent stake in Asko.

The precise scale of the group's influence is made all the more difficult to understand by the lack of disclosure and takeover rules in Germany: there is no obligation for the group to declare its hand until it has amassed a 25 per cent direct stake in a company.

It is widely suspected that Metro controls Asko via indirect stakes.

The only thing known for certain is that in the absence of a takeover code for Germany, Metro is not obliged to make an offer for the company's minority shareholders.

Metro's acquisition of Asko is going ahead after the federal cartel office reversed its decision that the deal would be anti-competitive.

Metro and Asko agreed to sell stores with total turnover of DM1.2bn as the price of the go-ahead.

This represents only a fraction of the group's total turnover and the cartel office's decision has done nothing to still the controversy surrounding the group's size and secrecy.

Hafnia to sell UK unit

By Richard Lapper in London

HAFNIA, the troubled Danish insurance company, is negotiating the sale of Prolific, its UK life insurance subsidiary, to Scottish Provident, the mutually-owned life insurance company.

The sale would be the most significant disposal by Hafnia since the company suspended payments to creditors in August. Hafnia bought Prolific for £90.6m ($137.7m) in 1989.

Analysts estimate the market value of Prolific to be between £20m and £65m. Paribas is handling the sale for Hafnia.

Hafnia said it was also making progress in the sale of its Danish insurance and banking interests. At least three companies were said to be interested. Morgan Stanley, the US securities house, is handling the transaction.

The company is seeking bidders for Economic, its UK general insurance company; Holnia, a Swedish insurance subsidiary; and C and V, a Swiss bank, and other assets.

New chief at Crédit Suisse

By Ian Rodger in Zurich

CREDIT SUISSE, Switzerland's third-largest bank, has chosen a young investment banker to be its next chief executive.

Mr Josef Ackermann, 44, replaces Mr Robert Jeker, who is leaving the bank "on the best of terms" to become managing director of Anova, Nueva and Unotec, Mr Stephan Schmidheiny's three investment and holding companies.

The shuffle comes only three months after a similar change of command at Swiss Bank Corporation. Both banks suffered the humiliation earlier this year of seeing their credit ratings downgraded a notch from the cherished triple A by Moody's, the rating service.

Mr Ackermann entered Crédit Suisse in 1978, and has worked in corporate banking in New York and in investment banking at Crédit Suisse First Boston in London.

Mr Jeker's departure helps ease succession at the bank. Mr Rainer Gut, the 60-year-old chairman, intends to stay until the retirement age of 68.

Suchard in Hungary deal

By Nicholas Denton in Budapest

JACOBS SUCHARD, the Swiss foods group, is acquiring Csemege Confectionery, Hungary's largest chocolate producer.

Suchard is buying the company, with an annual capacity of 15,000 tonnes, to take a dominant position in the growing Hungarian bar and tablet chocolate market.

The Swiss confectionery company, a subsidiary of Philip Morris of the US, will modernise the plant.

Executives at Suchard would not disclose financial details.

Suchard acquired the group from Stollwerck, the German food company. Stollwerck earlier this year won control of BEV, Hungary's largest confectionery company and the parent company of Csemege.

BEV had been producing Suchard's Milka brand under licence.

Suchard also took over Csemege's coffee-producing joint venture by buying out the BEV shareholding.

INTERNATIONAL COMPANIES AND FINANCE

BHP to cut debt after asset sale raises A$400m

By Bruce Jacques in Sydney

BHP, the Australian industrial and mining conglomerate, has sold A$400m of assets to Westpac Banking, the Australian bank.

BHP said the company had sold a A$400m (US$277m) parcel of A Redeemable Preference shares in Beswick and that further sales were contemplated.

Beswick was the vehicle BHP used to buy its own shares in the mid-1980s when the late Mr Robert Holmes à Court attempted to take over BHP. Beswick controls around 20 per cent of BHP.

BHP is sitting on a large capital gain on the investment because the shares were acquired at a price of around A$7, compared with BHP's current price of A$11.30.

The Beswick vehicle was set up with a complex structure involving BHP holding A$990m in A Class redeemable preference shares, A$73.3m in ordinary voting shares and A$600m in non-voting convertible preference shares. Other shareholders, in various classes of securities, are Fosters Brewing, Westpac and ANZ Trustees.

The sales announced yesterday reduces BHP's holding in A Redeemable preference shares to A$590m.

BHP said it would apply proceeds of the sale to debt reduction. Earlier this year BHP took effective control of Foster's Brewing for around A$1.7bn.

Packer to join Westpac

WESTPAC Banking announced yesterday that Mr Kerry Packer and Mr Al Dunlap are to join the Westpac board, Reuter reports from Sydney.

Mr Packer and Mr Dunlap are respectively chairman and managing director of Consolidated Press, which recently acquired 8.3 per cent of the capital of troubled Westpac for A$434m (US$301m).

Westpac announced last week that it planned to appoint Mr Peter Richie, the chairman of McDonald's Australia, to the board.

Mr John Uhrig, Westpac chairman, said: "These new appointments mean Westpac will have a very strong board as it follows through with its announced recovery programmes."

Westpac said Mr Packer and Mr Dunlap would be formally appointed after completion of the sale of Westpac's Network Ten television subsidiary to CanWest Global Communications of Canada, scheduled for later this month.

The appointment of Mr Packer and Mr Dunlap would take the number of board directors to 12 after recent resignations.

Former Westpac chairman Sir Eric Neal and four other directors resigned in October, while another director, Westpac Americas general manager Mr Tony Walton, resigned after discovery of a US$115m unexpected tax liability.

Peregrine forms China venture

PEREGRINE Investments Holdings, the holding company of merchant banker Peregrine Capital, has formed a joint venture in Beijing to provide investment and consultancy services, AP-DJ reports from Hong Kong.

The group has applied to the People's Bank of China to open a representative office – its first in China – in Shanghai in hopes of capitalising on the growing equity-related businesses in one of the mainland's two fledgling stock markets.

"Shanghai is going to be China's financial centre, and it's time we established our presence there," said Mr Louis Ying, a director of Peregrine Capital (China).

Pacific Dunlop sells Eastman stake to US

By Bruce Jacques

PACIFIC Dunlop, the Australian industrial group, has settled the sale of Eastman, the US stationery and furniture group, for US$142m.

Eastman, formerly a joint venture between Pacific Dunlop and David Jones, the Australian retailer, has been purchased by McCown DeLeeuw, a US venture banking company.

Pacific Dunlop acquired its interest in Eastman through the takeover of Petersville Sleigh, the Australian food group, in August last year. Initial plans to float Eastman for US$215m, were abandoned.

The sale is the latest in a string of disposals of Petersville assets by Pacific Dunlop. Directors said the Eastman sale price had allowed Pacific Dunlop to recoup the book value of its investment.

● Mayne Nickless, the transport group, has confirmed plans to acquire France Distribution System, the Paris-based warehousing and distribution company.

Mayne Nickless said FDS was France's leading company in the warehousing and distribution of dry grocery products, with annual sales of about A$167m (US$115.7m). The acquisition, from Scac-Delmas-Vieljeux, a private French company, is subject to French Treasury approval.

● The Australian government has approved the bitterly-contested bid by Campbell Soup, the US food group, for Arnotts, the Australian biscuit company, subject to a number of conditions.

Mr John Dawkins, federal treasurer, surprised the stockmarkets by announcing the approval yesterday. Analysts had expected the bid, at A$8.80 a share and valuing Arnotts at A$1.2bn, to be frozen for 90 days.

Mr Dawkins' conditions on the bid include that Arnotts must remain listed in Australia, the majority of its directors would be Australian and its operations remained based in Australia.

Arnotts shares dipped to $A8.80 yesterday.

Design problems plague Qantas sell-off

Kevin Brown on the factors shaping the privatisation of Australia's 'flying rat'

THE long and increasingly convoluted privatisation of Qantas, the Australian airline, reaches a crucial stage tomorrow when three foreign carriers are expected to deliver detailed bids.

The bids – from British Airways, Singapore Airlines and Air New Zealand – will lay the groundwork for the sale of up to 49 per cent of Qantas to corporate and institutional investors. If all goes according to plan, the government will float the balance on the Australian Stock Exchange.

The two-stage process should return about A$1bn (US$690m) to the Treasury. However, after more than a year of uncertainty, it is unclear whether the privatisation can be completed on schedule in March.

BA has not troubled to hide its irritation with the erratic behaviour of the federal Labor government, which has changed its mind about the sale several times.

Initial privatisation plans, announced in 1991, envisaged the separate sale of 49 per cent of Qantas and 100 per cent of Australian Airlines, one of the two main domestic carriers.

In June, Mr Paul Keating, prime minister, persuaded Labor to accept the merger of the two airlines, at a cost of A$400m to Qantas, followed by 100 per cent privatisation. Last month, the government changed the rules again, reducing the maximum shareholding of any one foreign airline from 35 per cent to 25 per cent, with a 35 per cent ceiling on aggregate foreign ownership.

Paul Keating: continually changing privatisation rules

The latest announcement was badly received in London, where Sir Colin Marshall, BA chief executive, said BA was "uncertain" whether it remained interested in Qantas. Some of the uncertainty was removed at a subsequent meeting in New York between Sir Colin and Mr Ralph Willis, Australia's finance minister, who is in charge of the sale.

But analysts say the government may have over-estimated Qantas' attraction. In this case, it could be forced into a risky flotation of up to 100 per cent of the airline next year.

Qantas has a great deal going for it. It has an excellent safety record and it owns one of the newest fleets in the world. Its white kangaroo logo, known in the aviation business as the flying rat, is one of the world's best-known brands, especially in the fast-growing Asia-Pacific area.

Moves towards a common aviation market with New Zealand, due by 1994, have increased Qantas' potential domestic base from about 17m people to 21m. The merger with Australian Airlines also allows Qantas to feed domestic customers more effectively into its international operations.

But the big attraction is Qantas' strong network in the Asia-Pacific region. Qantas would be a very good fit with BA, which offers increased access to Europe and North America in return for a stronger Pacific presence.

Such a scenario is in line with Sir Colin's view that global aviation will be controlled over the next decade by half a dozen big airlines.

BA has given private assurances that it would use its shareholding to reach mutually beneficial agreements with Qantas, rather than to dominate the airline. But Qantas managers believe that effective control would inevitably pass to London unless BA's influence was countered by an equally strong shareholding in the hands of another airline.

BA is thought unlikely to agree to such an arrangement, and is believed to be structuring its bid to allow for a 24 per cent initial shareholding in Qantas by Australian institutions. Qantas managers, notably Mr John Ward, managing director, would prefer a deal in which the available foreign shareholding was split between Singapore Airlines and Air NZ.

Such a deal, sometimes called the "tricycle option", would build on the existing links between the three players: Qantas owns 19 per cent of Air NZ; while Temasek Holdings, SIA's parent company, owns about 6 per cent of Brierley Investments, the biggest shareholder in Air NZ.

Sir Colin Marshall: unhappy with ceiling on shareholding

The tricycle option makes strategic sense in the context of a common Australasian market, and might give Qantas greater access to Singapore's Changi Airport – one of Asia's two hubs. But, before any deal can be done the government must reach agreement with the airlines on Qantas' value.

In addition to A$1bn of shareholders' funds, the price must cover the A$400m cost of acquiring Australian Airlines, and Qantas' recapitalisation to ease the balance sheet burden of its A$3bn debt. Mr Kim Beazley, the minister who initiated the privatisation, put the recapitalisation requirements of the two airlines at A$1bn, implying a A$2.4bn price for the merged airline.

But Qantas management is pushing for a larger recapitalisation to reduce its ratio of debt to shareholders' funds from the present 75:25 to nearer 50:50. According to Mr Ward, that would increase the sale price to as much as A$3bn. This means the airlines' bids will have to reflect their judgments of Qantas' recapitalisation requirements, which may differ from those of the government and Qantas management.

If the trade sale goes ahead, it will dictate the price of shares in the subsequent flotation. That could make the issue difficult to sell unless the Australian market rallies between now and then.

If the trade sale flounders, or if less than 49 per cent of the airline is sold, the government will have to expand the planned flotation.

But there is another complication. The government must hold a federal election by June, but Mr Keating has left open the option of an early election between March and May. The uncertainty makes it difficult to ensure that the flotation would not clash with the five-week campaign, suggesting that it may have to be delayed.

"There are so many variables involved with this deal that it is impossible to know what is going to happen," says one of the half-dozen stockbrokers advising the government. "The airline is definitely saleable, but how and at what price it is impossible to say."

Deal set up to raise western equity capital for Russia

By John Lloyd in Moscow

A CANADIAN company and a UK securities house have set up the first attempt to raise western equity capital for investment in Russia.

The deal, signed yesterday in London, creates a joint venture called PeterStar, which is to provide international telecommunications for St Petersburg.

The shareholders are LenTel, the city's telephone company (with 40 per cent), the city authorities (10 per cent) and the Petersburg Long Distance Telephone Corporation, a stock market listed Canadian company which has changed its name from the NWE Capital Corporation.

Smith New Court, the UK broker, is to place 3.3m shares in a secondary offering – the first time equity capital will be raised for investment in what is essentially a Russian enterprise.

The company has secured as chairman Mr Gordon Owen, formerly group managing director of Cable and Wireless. Mr Owen was in charge of the restoration of telecommunication services in Kuwait after the Iraqi invasion.

The main customers of the joint venture will be tourists, who are expected to use the hard currency telephone boxes now being set up in the city.

Western businesses and hotels will also have access to the network, with local residents being offered the services at a later stage.

The venture expects to produce pre-tax profits of about $24m by 1995.

Although strongly backed by Mr Anatoly Sobchak, the mayor of St Petersburg, the project has to overcome a number of financial and legal provisions.

At present, 50 per cent of hard currency earnings must be changed into roubles – with pressure mounting for the government to introduce a 100 per cent regime because of its need for hard currency.

Profit and value added taxes, as well as income tax, are currently at high rates of between 30 and 40 per cent – while Russian auditing and accounting standards are widely different from those in the west. Finally, there is no secure system of enforcing property and other legal rights.

Solid State Farm rides out the hurricane

Nikki Tait on how the US insurer can absorb billions of dollars of catastrophe losses

MR ROGER Joslin, treasurer of the giant State Farm Insurance Company, looks pained. He has just been asked about the size of the catastrophe claims which the US's biggest car and home insurance provider has faced this year.

Mr Joslin does not know the precise figure, but a few clicks on the calculator provide the answer: $3.24bn.

The bulk of this – more than $2bn – comes from Hurricane Andrew, which devasted southern Florida in late-August. Even in the sanguine world of insurance, where disasters are everyday business, Andrew caused unprecedented upheaval.

Within days, State Farm, the largest writer of homeowners' policies in the "sunshine state", had drafted in almost half its 4,000 loss-adjusters. By late-October, it still had 2,300 extra employees in the area. In the meantime, 110,000 individual claims had flooded in.

But if administering the disaster was an unparalleled immediate task, the financial implications are a longer-lasting problem.

The cash drain from Andrew – which some estimates now put at around $14bn for the US insurance industry overall – not only followed large catastrophe losses earlier in 1992, but came after a spate of tough years.

Most big US insurers flinched publicly when the hurricane compounded this run of ill-fortune. Allstate and The Prudential, two of State Farm's largest rivals, had their debt ratings lowered.

But State Farm, a mutual, owned by its policyholders rather than by shareholders, made little public comment, despite the lack of catastrophe reinsurance cover. Rating agencies were sanguine: A.M. Best, for example, which specialises in the insurance sector, retained an A-plus rating for State Farm's fire and casualty arm, its second-highest rating.

What kind of company can absorb multi-billion dollar losses? The answer lies in the unassuming mid-west town of Bloomington, about 100 miles from Chicago, where State Farm has its headquarters.

Sinking fund: Hurricane Andrew led to claims of more than $2bn

The business was formed in 1922 by a retired farmer, Mr George Mecherle, who thought that existing insurers were offering country folk a bad deal by charging them the same rates for car insurance as city dwellers. So, on the back of cheaper premiums and using the federal Farm Bureau network as a distribution source, he started State Farm.

The organisation quickly proved a success. It added a life insurance division in 1929; had established a substantial local head office within a decade; and finally set up an agency sales force in 1949.

Today, the scale of State Farm is difficult to grasp. In terms of market share, according to A. M. Best, it accounted for 21.4 per cent of all private passenger car premiums in the US in 1991, and 20 per cent of homeowners' policies. This easily outstripped Allstate, its nearest rival, which held 12.5 per cent and 12.4 per cent respectively.

State Farm's car and home insurance divisions are augmented by a large life business and a much smaller health operation. Assets in the three main units – car, homeowners, and life – stood at $42.7bn, $11.9bn and $14.1bn respectively at end-1991, while policyholders' surpluses were $11bn, $2.8bn, and $1.64bn.

Sales are handled by about 18,000 independent, self-employed agents, who keep a percentage of the premiums which they bring in.

But, solid and admired as State Farm may be, it has not always had an easy ride. Its old-fashioned, mid-western culture has come under attack, and competitors, long resentful of the insurer's go-it-alone stance in a generally clubby industry, have been quick to point to the flaws.

Most notably, there has been a lawsuit which claimed the insurer discriminated against the recruitment of women agents. In 1985, a judge found State Farm liable, and earlier this year the company finally negotiated a $157m settlement. It was the largest sum ever paid in a case brought under the 1964 Civil Rights Act.

Management succession has been another touchy area. In the 1950s, the task of heading State Farm passed from the Mecherles to the Rust family. But Mr Edward Rust, the second generation in his family to run the company, died suddenly in 1985. He was replaced by a third-generation Rust, Mr Edward B. Rust Jr, who was just 35 years old when he took up the reins.

This raised eyebrows outside the company, although insiders say little has changed internally. "They've been very conservative, and they've pursued a very straightforward, consistent strategy," says Mr Jack Snyder, senior vice-president of the property-casualty division at A. M. Best.

While such issues have niggled at the public image, State Farm has confronted more fundamental problems in its main business areas.

Car insurance has become a fraught political issue – with the industry anxious to push up premiums, citing rising claim costs and consumers arguing that affordable insurance is virtually impossible in some areas. In California, matters came to a head four years ago when the electorate passed Proposition 103, demanding that local insurers "roll back" their rates and pay out rebates.

Some insurers – but not, so far, State Farm – have reacted to the problem by walking away from certain states.

"We've certainly talked about it," says Mr Joslin, though he admits that no such move is seriously contemplated. The company is contesting a $235m rebate demand by the Californian insurance commissioner, claiming it has never made an "excessive" return on its business there.

MARKET SHARES FOR STATE FARM AND ALLSTATE (%)				
	HOMEOWNERS		PRIVATE CAR	
Year	State Farm	Allstate	State Farm	Allstate
1991	20.4	12.4	21.4	12.5
1990	19.0	12.4	21.0	12.4
1989	18.4	12.0	20.4	12.1
1988	18.3	11.5	19.5	11.7
1987	18.9	10.8	18.8	11.2
1986	17.5	10.4	18.9	10.8
1985	18.2	9.8	18.6	10.4
1984	17.2	9.3	17.7	10.5
1983	16.8	9.3	17.8	10.8
1982	16.4	9.6	17.5	11.0

Source: A.M. Best.

Nevertheless, matters on the car front improved substantially last year. The underwriting loss at State Farm's car division fell from more than $1.6bn to around $525m following improvements in claims experience and rate increases. The division posted a $1.3bn profit after tax, against a $261m loss the previous year.

By contrast, the fire and casualty business – which includes homeowners' insurance – remains bleak, partly because of the catastrophe losses.

With underwriting losses increasing in 1991, this division produced an after-tax loss of $235m last year, and the combination of Hurricane Andrew, the earlier catastrophe losses, and subsequent storms (including Hurricane Iniki) has put paid to any recovery in 1992.

"We'll face a substantial loss," says Mr Joslin, "but not one which will destroy our financial foundation."

But, for all these problems, the company seems to have little intention of ploughing new furrows.

"We've prospered by sticking to our knitting," says Mr Joslin, looking askance when subjects like international expansion – even as close to home as Mexico – are mentioned.

But, as Mr Snyder points out, "there's still a lot of markets State Farm can penetrate. There's still more scope for cross-selling.

"After all, everyone with a State Farm car policy does not yet have a homeowners' policy."

Apple plans dial-up services for PC users

By Louise Kehoe in San Francisco

APPLE Computer plans to introduce dial-up information services for users of its personal computers and future personal communications products.

The company has licensed the technology from America Online, the fourth-largest US provider of computer information services.

Online information services give PC users access to a range of information, such as stock market reports, news and weather.

They also provide electronic shopping and banking services and enable PC users to communicate via electronic mail systems.

Use of such services is expected to grow rapidly with the proliferation of portable PCs and a new generation of "personal communicators" that combine the functions of a PC, a cellular telephone and a facsimile machine.

Apple said it would manage and market its own information services, based upon America Online technology. The two companies also plan to work together to develop enhancements to America Online services and to establish the technology as a standard.

Apple will use the America Online technologies to create an improved version of its existing AppleLink global electronic communications system.

AppleLink, which enables Apple employees and the company's suppliers to communicate electronically, is not available to the public. The system is used by about 50,000 people, Apple said.

As part of the agreement between Apple and America Online, Apple received warrants to buy around 10 per cent of the online services company's stock for $1.3m over the next five years.

Apple will also pay royalties for the use of America Online's technology.

America Online currently has about 180,000 subscribers to its information services.

Canadian paper group to go private

By Robert Gibbens in Montreal

THE Tribune Company of Chicago, is taking Quebec & Ontario Paper, its fully-owned Canadian pulp and timber subsidiary, public with a C$125m (US$98m) share offer.

Tribune, which has owned the company for 80 years, will retain about two-thirds control.

Q&O, which has annual capacity of 815,000 tons metric of newsprint at its Quebec & Ontario mills, will change its name to Quno Corp.

Q&O lost C$54m on sales of C$320m in the first nine months of 1992, against a profit of C$4.9m on sales C$370m a year earlier.

Prices for newsprint ran at all-time lows after inflation, but are expected to improve sharply in 1993-94 with US economic recovery.

Q&O is a leader in recycling technology for newsprint production and the Chicago Tribune will remain a large customer.

Wood Gundy heads the underwriting group for the public offer and will announce the price shortly.

Goodyear to take one-off charge of $1bn

By Alan Friedman in New York

GOODYEAR, the last surviving big US-owned tyremaker, said yesterday it would take a one-time net charge of $1.01bn because of the early adoption of two non-cash accounting changes related to retiree non-pension benefits and income taxes.

The special accounting charge, which a number of US companies will be taking, will cause a full-year net loss at Goodyear, since it will be retroactive to the start of 1992.

The Ohio-based company has already restated its net earnings for the first nine months of 1992, which now show a net loss of $746.1m, having last October been reported as a net profit of $279.3m.

Mr Stanley Gault, chairman, said the company decided to take the one-time extraordinary debit rather than spread the amount over 20 years because of strong sales and operating earnings.

He said that even with the new charge, the company would achieve its planned debt-to-debt-plus-equity ratio of 40 per cent by the end of 1993.

On Wall Street, Goodyear's share price fell $¾ to $71¼ early yesterday.

● AMR, parent company of American Airlines, announced yesterday it would take an after-tax charge of $525m, against 1992 profits, as a result of adopting two new accounting standards, adds Nikki Tait.

The first relates to Financial Accounting Standard 106, requiring companies to accrue future pensioners' medical and life insurance benefit costs over the working lives of eligible employees.

AMR said this meant 1993 expenses would be around $60m (after-tax) higher than under the old method, and there would be a further one-off charge of about $600m as result of applying the new standard to previous years.

The effect of FAS 106 will be partially offset by FAS 109, which changes the way companies account for income taxes. This will produce a one-off benefit, after-tax of $135m.

Amax halves payout on 'abnormal' prices

By Kenneth Gooding, Mining Correspondent

AMAX, the third-largest US aluminium producer, is halving its quarterly dividend to 10 cents a share because of "abnormally low" prices for the metal.

The company will also take charges totalling $399m after tax, partly offset by a $192m income tax benefit.

Mr Allen Born, chairman, estimates Amax, which makes about two-thirds of its earnings from aluminium, will suffer a fourth-quarter loss of about $50m before special provisions.

The company reported a net loss of $49m, or 57 cents a share, for the first nine months of 1992, compared with net earnings of $40m, or 46 cents, in the same period of last year.

Amax will take a charge of $97m ($61m after tax) to adjust the carrying value of various non-core assets and provide for additional "streamlining and downsizing" costs. Mr Born suggested these adjustments would benefit future annual pre-tax operating earnings by $25m.

The company is accounting for the full impact of the Financial Accounting Standard Board pronouncements in 1992. The effect of the employee benefits costs obligation of $338m after tax would be partly offset by a $192m benefit resulting from the adoption of the new rules for income taxes.

● Southern Peru Copper Corporation, which owns two mines and a smelter in Peru, is paying a $7m dividend for the third quarter compared with $4m in each of the previous 1992 quarters.

In 1991 it paid shareholders – Asarco (52.3 per cent) Marmon Group (20.7 per cent) Phelps Dodge (16.3 per cent) and Newmont Mining (10.7 per cent) – dividends totalling $60m.

Last year, the Peruvian company produced 300,200 short tons of copper, 3.1m troy ounces of silver and 6.7m lb of molybdenum.

Upturn seen in US newspaper advertising

By Alan Friedman

KNIGHT-RIDDER, the US newspaper and news agency service group, is predicting a rise of between 3.5 per cent and 4.5 per cent in total US newspaper advertising revenues during 1993.

Mr Jerry Tilis, Knight-Ridder's vice-president for marketing, made the forecast yesterday at a seminar in New York.

He said the that bulk of the increase would probably be the result of higher advertising rates.

During 1993, Mr Tilis said he expected revenues from both retail and national advertisers in the US to rise by 3 to 4 per cent. Classified revenues could grow by 4 to 5 per cent.

Mr Tilis said the total rise in US advertising revenues for the current year was likely to be an anaemic 0.7 per cent, with national advertising revenues some 2 per cent better than last year and classified and retail revenues up by 0.5 per cent.

INTERNATIONAL CAPITAL MARKETS

Treasuries rally persists after positive economic data

By Patrick Harverson in New York and Sara Webb in London

US TREASURY prices continued to firm yesterday morning as investors interpreted recent strong economic data in a positive light.

By midday, the benchmark 30-year government bond was up 3/8 at 101 25/32, yielding 7.467 per cent. The two-year note was also firmer at the halfway stage, up 1/4 at 100, yielding 4.608 per cent.

Although good economic news is normally bad for the market, because it is seen as a harbinger of higher inflation and interest rates, investors have welcomed the recent signs of strength as making it less likely that president-elect Clinton will introduce an aggressive package of fiscal stimuli in his opening months.

During and immediately after the election campaign, the bond market's biggest fear was that a programme of heavy government spending by a Democratic administration would widen the federal budget deficit and push up interest rates and general prices. Those fears are abating, although the concern about an overheated economy still exists.

GOVERNMENT BONDS

■ UK government bond prices drifted lower across the yield curve as the release of the latest credit figures dashed hopes of a cut in interest rates.

Dealers said the UK credit figures, which showed a £76m rise in the amount of credit outstanding by British consumers, provided a slightly more bullish picture of the UK economy, with the result that hopes of a base rate cut faded.

The Liffe gilt futures contract fell from 99.18 at the opening to 99.07 by late afternoon on relatively low volume of around 15,500 contracts.

In the cash market, short-dated gilts fell by over a quarter of a point, with the 10 per cent gilt due 1994 dropping from 104 13/32 to 104 1/8 to yield 6.91 per cent. The 9¾ per cent gilt due 2002 slipped from 108 9/32 to 108 1/8, resulting in a flattening of the yield curve.

■ French government bonds weakened on reports of an imminent devaluation of the French franc and worse-than-expected money supply figures, but ended the day little changed. The devaluation press reports were denied later in the day.

French M3 money supply grew by 0.2 per cent in October, giving year-on-year growth of 5.7 per cent – compared with 5.3 per cent in September. The Bank of France has a target of 4 to 6 per cent for annual M3 growth in 1992.

The yield on the 8¼ per cent bond due 2023 opened at 8.67 per cent and traded at around 8.70 per cent by late afternoon. On the Matif futures exchange in Paris, the December bond futures contract closed at 110.18, up 0.12 from late Friday.

■ German government bonds drifted lower in thin trade ahead of Thursday's Bundesbank Council meeting, with the Liffe bund future contract slipping from 91.72 to 91.52 by late afternoon.

Dealers said bunds opened on a relatively firm note following Sunday's Swiss referendum vote, which rejected a plan for a European Economic Area and led to some uncertainty about tensions within the European exchange rate mechanism. Reports in the German press that half of the Bundesbank Council members are in favour of a cut in interest rates also helped to give the bund market a push early in the session, but prices later drifted lower.

■ Swiss franc bonds ended higher, ignoring the decision by Swiss voters to reject the European Economic Area treaty in the weekend referendum. Dealers said the recovery in the Swiss Franc against the D-Mark helped to lift bond prices.

■ Japanese government bonds ended slightly firmer, helped by lower money market rates and hopes of a cut in the Official Discount Rate.

The yield on the benchmark No 145 traded in a narrow range of between 4.585-4.60 per cent. In the futures market, the March contract ended at 107.81, up from Friday's close of 107.74.

Dealers said the market was hoping to see a cut in the Official Discount Rate, especially as Friday's quarterly Tankan report on business confidence is expected to show that the Japanese economy is still in a weak state.

The unsecured overnight call money rate slipped 1/32 to 3 25/32 per cent yesterday, and dealers are waiting to see whether some of the commercial banks will follow Sanwa Bank's example and cut their short-term prime rates.

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
AUSTRALIA		10.000	10/02	107.8485	+0.337	8.79	8.78	8.82
BELGIUM		8.750	06/02	104.7700	+0.070	8.01	8.07	7.98
CANADA *		8.500	04/02	103.6500	+0.400	7.94	8.16	8.01
DENMARK		9.000	11/00	99.2843	-0.416	9.13	9.06	8.63
FRANCE	BTAN	8.500	03/97	101.3071	+0.070	8.10	8.26	7.94
	OAT	8.500	11/02	101.6950	+0.070	8.24	8.30	8.05
GERMANY		8.000	07/02	103.8700	-0.150	7.42	7.41	7.35
ITALY		12.000	05/02	93.0250	+0.080	13.761†	13.50	13.59
JAPAN	No 119	4.800	06/99	101.7872	+0.040	4.45	4.52	4.63
	No 145	5.500	03/02	105.8967	+0.040	4.59	4.67	4.72
NETHERLANDS		8.250	06/02	104.9400	+0.010	7.50	7.54	7.55
SPAIN		10.300	06/02	96.8000	+0.650	10.86	12.71	12.55
UK GILTS		10.000	11/96	108-20	-10/32	7.44	7.58	8.95
		8.750	08/02	108-24	-6/32	8.41	8.56	8.11
		9.000	10/08	102-07	+2/32	8.73	8.88	8.54
US TREASURY *		6.375	08/02	97-03	+24/32	6.79	6.87	6.92
		7.625	11/22	101-25	+25/32	7.47	7.61	7.71
ECU (French Govt)		8.500	03/02	98.0000	+0.075	8.82	8.87	8.78

London closing. *denotes New York morning session. Yields: Local market standard.
† Gross annual yield (including withholding tax at 12.5 per cent payable by non-residents.)
Prices: US, UK in 32nds, others in decimal. Technical Data/ATLAS Price Sources

FT FIXED INTEREST INDICES

	Dec 7	Dec 4	Dec 3	Dec 2	Dec 1	Year ago	High *	Low *
Govt Secs (UK)	93.45	93.63	93.26	92.81	92.90	86.65	95.54	85.11
Fixed Interest	108.80	108.37	108.06	108.04	107.92	95.87	110.28	97.15

Basis 100: Government Securities 15/10/26; Fixed Interest 1928.
* for 1992. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75)
Fixed Interest high since compilation: 110.26 (12/11/92), low 50.53 (3/1/75)

GILT EDGED ACTIVITY

Indices*	Dec 4	Dec 3	Dec 2	Dec 1	Nov 30
Gilt Edged Bargains	130.8	128.3	131.3	158.5	155.0
5-Day average	140.8	140.6	141.6	146.8	151.9

* SE activity indices rebased 1974

EC throws role of interdealer broker into question

By Richard Waters

THE ROLE of interdealer brokers in financial markets throughout the European Community has been thrown into question by a ruling from the Commission over the activities of brokers in the international bond market.

Interdealer brokers (IDBs) act as specialist intermediaries between marketmakers, helping to oil the wheels of financial markets. Rules in most markets prevent them from dealing with anyone other than marketmakers.

The Commission has now told the International Securities Markets Association that its rules governing IDBs are potentially anti-competitive and could breach Articles 85 and 86 of the Treaty of Rome. The ruling led ISMA to relax its rules at the end of last week, allowing IDBs to deal with institutions other than marketmakers.

ISMA also dropped its requirement that IDBs open their books to inspection to prove that they were not breaking the rules.

Restrictions similar to those which have been dropped by ISMA govern specialist brokers in several national government bond markets, including those in the UK and France, as well as the UK equity market.

The Bank of England said yesterday that it had no plan to allow IDBs in the gilts market to deal with non-marketmakers. "It's been a rule since 1986. The Commission has known perfectly well what our rules are, and it hasn't been troubled about them before," the Bank said.

Marketmakers complain that it is unfair to allow IDBs access to other institutions. "They don't commit any capital and take no risks, and have access to the best prices," said Mr Jerry Goldstein, the chairman of ISMA's council of reporting dealers.

Freeing them of restrictions would enable them to deal directly with the marketmakers' own and customers, without forcing them to take on the same marketmaking commitments.

The Commission officials responsible for the ISMA ruling could not be contacted for comment yesterday. However, it is believed that there is no immediate intention of extending the judgment to IDBs in the EC's domestic markets.

ISMA, which is not covered by national regulation, had submitted its rulebook to the Commission in the hope of getting a letter of comfort stating that its regulations complied with EC law. The adverse ruling is also believed to have been prompted by a complaint to the Commission from one or more IDBs in the eurobond market.

S&P puts government of HK on credit watch

By Brian Bollen

STANDARD & Poor's, the US credit rating agency, has placed the government of Hong Kong's implied long-term ratings on credit watch with negative implications. The move reflects the rapid deterioration of relations between Britain and China over the governance of Hong Kong during the past two months, it said.

S&P said that the implied ratings of government-owned Mass Transit Railway Corp are also under review, although this does not reflect any change in its stand-alone credit quality.

The credit watch listings affect the A senior foreign currency and A+ local currency ratings of both the government and MTRC. Short-term ratings are unaffected.

"The significance of this is not simply that the government is in surplus and is likely to remain so," explains Mr David Beers, a director at S&P in New York. "The issue is: what are the political risks for the longer tem, and their economic impact?"

S&P's practice of awarding implied ratings to sovereigns which are not attached to specific debt issues serves to establish a "ceiling" for would-be borrowers in that jurisdiction.

Meanwhile, Hong Kong remains an attractive location for overseas investment in manufacturing, said Mr T. H. Barma, director-general of industry, commenting on the findings of the latest survey on the subject by the industry department.

The total value of overseas investment at the end of 1991 was HK$34.4bn, 11 per cent more than in the previous year, he said.

Citicorp ready to launch $2bn offer

By Tracy Corrigan

CITICORP is preparing to launch a $2bn global offering of credit card-backed securities later today, for pricing tomorrow.

INTERNATIONAL BONDS

The deal consists of $1bn of five-year floating-rate notes and $1bn of two-year floating-rate notes, both issued with junior tranches of fixed-rate bonds.

A Citicorp official said he expected the five-year notes to meet stronger demand in Europe, while the two-year tranche is likely to perform better in the US.

The deal is backed by Citicorp credit card receivables and arranged by Citicorp and Salomon Brothers.

BCE, the Canadian telecommunications group which owns Bell Canada, yesterday raised £125m in the sterling bond market. The financing is linked to its £480m purchase of 20 per cent of Mercury Communications, the UK's second largest telecommunications operator.

The five-year issue met a lacklustre response from investors, despite a series of roadshows last week designed to promote the deal.

Traders said the pricing of the deal appeared reasonable, at a yield spread of 70 basis points more than the comparable five-year gilt. But the spread widened to about 73 basis points due to the lack of investor interest in the issue.

Some investors were deterred by BCE's lack of credit ratings from the main US rating agencies, although it is rated by Canadian agencies.

The weakness of the gilts market also proved a negative factor. But the deal's disappointing performance was mainly due to investors' unwillingness to buy more paper, as the end of the year approaches.

BCE's treasurer, Mr Fred Andrew, said the cost of the partial acquisition of Mercury has already been met from disposals of assets in Canada, but the sterling liability will act as a hedge for the Mercury investment.

He added that the company may return to the sterling bond market next year. The acquisition is expected to go through in January.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
US DOLLARS						
DESC(a)	10	11	100.55	1997	1⅞/1¼%	Goldman Sachs Int.
YEN						
Tokyu Land Corp.	20bn	5.3	100	1998	30/20bp	Yamaichi Int.(Europe)
STERLING						
BCE Inc.	125	8.375	99.49	1998	30/20bp	UBS P&D Secs.
SWISS FRANCS						
NTT	300	6	102.5	2000	-	UBS

All issues are final terms and non-callable. a) Issue launched on 3/12/92 has been increased to $125m. Coupon payable semi-annually.

CIBC prunes payroll by 2,500

By Robert Gibbens in Montreal

CANADIAN Imperial Bank of Commerce has warned it will reduce staff across the board, by 2,500 or 2.5 per cent, over the next 12 months, spotlighting serious overcapacity in the financial services industry.

Most of the big Canadian banks have been pruning payrolls during 1992 because of intense cost pressures, but Canadian Imperial Bank of Commerce has clearly indicated it plans to reduce operations because of slow economic recovery and the impact of further automation.

Mr Al Flood, CIBC chairman, said the cutbacks were designed to raise productivity. "We are responding to business realities of the '90s. It is very different from the high growth and high inflation economy of the 1980s."

CIBC has 48,000 employees, including 35,000 full-time and half the cutback will be achieved through redundancies and early retirement.

MARKET STATISTICS

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:05 pm on December 7

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
ABN 9 1/8 94	200	105¾	106½	-⅛	5.36
ALBERTA PROVINCE 9 3/8 95	600	108¾	109¼	+¼	5.98
AUSTRIA 8 1/2 00	400	107⅜	108	+½	7.09
[illegible]					

OTHER STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
ARBED 7 1/2 95 LFr	600	96¼	97¼	-¼	9.15
EISC 7 3/4 94 LFr	1000	99	100	-⅛	8.41
WORLD BANK 8 96 LFr	1000	100	101	+½	7.98
[illegible]					

DEUTSCHE MARK STRAIGHTS; SWISS FRANC STRAIGHTS; YEN STRAIGHTS; FLOATING RATE NOTES; CONVERTIBLE BONDS: [illegible]

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day. FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (three-month above mean rate) for US dollars. C.cpn=The current coupon. CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	6	63	11
Other Fixed Interest	9	2	4
Commercial, Industrial	338	185	895
Financial & Property	147	107	547
Oil & Gas	16	17	52
Plantations	0	1	8
Mines	22	32	88
Others	60	24	52
Totals	598	431	1,637

LONDON RECENT ISSUES

EQUITIES; FIXED INTEREST STOCKS; RIGHTS OFFERS: [illegible]

TRADITIONAL OPTIONS

- First Dealings Dec. 7
- Last Dealings Dec. 18
- Last Declarations March 11
- For settlement March 22

For rate indications see end of London Share Service. Stocks dealt in for the call shown in Saturday editions. Calls in Arcon, Ferranti Intl., Hunters Armley, Leslie Wise, Owners Abroad, Pilkington and Rhino.

FT-SE ACTUARIES INDICES

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LIFFE EQUITY OPTIONS

Option		Calls Jan	Calls Apr	Calls Jul	Puts Jan	Puts Apr	Puts Jul
Alld Lyons (*638)	600	48	63	69	8	17	30
	650	17	34	45	30	38	54

Option		Calls Feb	Calls May	Calls Aug	Puts Feb	Puts May	Puts Aug
BAA (*790)	750	66	87	95	14	22	30
	800	35	55	66	36	43	52
Blue Circle (*173)	160	17	30	34	4	13	22
	180	7	19	25	13	24	32
British Gas (*274)	260	17	26	28	2	6½	12
	280	5	14	17	9	15	21
Dixons (*263)	260	13	24	35	7	18	24
	280	5	17	25	20	30	35
Eurotunnel (*345)	330	23	43	56	11	25	33
	360	7	25	37	32	45	52

Option		Calls Dec	Calls Mar	Calls Jun	Puts Dec	Puts Mar	Puts Jun
Glaxo (*819)	800	35	68	93	14	45	58
	850	13	43	68	42	72	85

Remaining options series: [illegible]

December 7 Total Contracts 23,954
Calls 14,048 Puts 9,906
FT-SE Index Calls 5,295 Puts 7,156
Euro FT-SE Calls 2,795 Puts 1,152
Eurotrack 100 Index Calls 0 Puts 0
*Underlying security price. † Long dated expiry mths
Premiums shown are based on closing offer prices.

FT-ACTUARIES FIXED INTEREST INDICES

	PRICE INDICES	Mon Dec 7	Day's change %	Fri Dec 4	Accrued interest	xd adj. 1992 to date
	British Government					
1	Up to 5 years (22)	128.21	-0.19	128.46	2.76	10.99
2	5-15 years (25)	145.57	-0.11	145.72	3.04	11.85
3	Over 15 years (8)	151.36	+0.04	152.62	1.93	11.89
4	Irredeemables (6)	170.14	-0.09	170.28	1.27	13.68
5	All stocks (61)	141.95	-0.12	142.27	2.84	11.79
	Index-Linked					
6	Up to 5 years (2)	183.84	-0.04	183.92	0.72	3.68
7	Over 5 years (10)	164.60	-0.13	164.82	1.35	4.04
8	All stocks (12)	165.98	-0.12	166.18	1.26	3.96
9	Debs & Loans (62)	122.39	+0.04	122.34	2.44	11.13

	AVERAGE GROSS REDEMPTION YIELDS		Mon Dec 7	Fri Dec 4	Year ago (approx.)
	British Government				
1	Low	5 years	7.37	7.30	8.81
2	Coupons	15 years	8.30	8.26	9.46
3	(0%-7¾%)	20 years	8.53	8.50	9.46
4	Medium	5 years	7.65	7.58	9.82
5	Coupons	15 years	8.72	8.72	9.58
6	(8%-10¾%)	20 years	8.88	8.89	9.54
7	High	5 years	7.88	7.81	10.04
8	Coupons	15 years	9.02	9.01	9.66
9	(11%-)	20 years	9.10	9.09	9.58
10	Irredeemables (Flat Yield)		8.92	8.91	9.65
	Index-Linked				
11	Inflation rate 5%	Up to 5yrs.	2.56	2.54	3.95
12	Inflation rate 5%	Over 5 yrs.	3.91	3.90	4.33
13	Inflation rate 10%	Up to 5 yrs.	1.78	1.76	3.34
14	Inflation rate 10%	Over 5 yrs.	3.74	3.72	4.16
15	Debs &	5 years	8.94	8.93	11.35
16	Loans	15 years	9.97	9.95	11.15
17		25 years	10.16	10.16	10.97

Lower exceptionals behind Westland rise

By Paul Betts and David White

WESTLAND, the helicopter group, is raising its annual dividend from 4p to 4.25p, with a proposed final of 3p, against 2.75p, after reporting an 11 per cent rise in pre-tax profits for the year to October 2.

A halving of exceptional charges to £3.8m (£7m) as a result of lower restructuring costs was behind the profit rise to £26.3m (£23.7m). Turnover fell 10 per cent to £422.1m (£467.4m). Earnings per share were 13.2p (13.1p).

Mr Alan Jones, chief executive, said the company had reached the bottom of the trough caused by the fall in helicopter orders as well as the recession in civil aviation.

He saw the future "with a degree of confidence" after the intake of orders had trebled in the year to £1.18bn. Since the year end orders worth £550m for helicopters had been received from the Ministry of Defence and Canada.

Westland, the future of which was at the centre of a cabinet crisis six years ago, is pinning its prospects on the development of the Anglo-Italian EH101 large military and civil helicopter as well as a possible order to manufacture McDonnell Douglas's Apache attack helicopter for the British army.

Mr Jones said Westland was also continuing to increase its activities in the civil aerospace sector by producing components for new widebody and regional airliner programmes.

Despite its determination to focus new investment on civil activities, largely based on the Isle of Wight, Westland remains heavily dependant on defence helicopters. The new orders and an expected order of 16 naval versions of the helicopter from Italy would lead to an increase in the group's 70 per cent dependence on military helicopter business over the next few years.

Mr Jones said Westland's future lay in an increasingly close relationship with Agusta, the state-controlled helicopter company which is its Italian partner in the EH101. This would create a counterweight to the Franco-German Eurocopter partnership between Aerospatiale of France and Deutsche Aerospace.

Westland does not envisage any further radical reduction in its workforce of 8,500 after cutting about 150 jobs in the last financial year.

Ashley Ashwood

Alan Jones: reached the bottom of the trough

Growth dependent on drugs

Paul Abrahams on Zeneca's hopes for the future

THE FUTURE of pharmaceuticals is critical for Zeneca, Imperial Chemical Industries' biosciences company, given the bleak immediate outlook for company's agrochemicals and speciality chemicals businesses.

The company's drugs pipeline has been criticised for being thin, with few new chemical entities. However, in a presentation yesterday described by analysts as up-beat, Mr David Friend, pharmaceuticals chief executive, said extending the number of new diseases that existing products could treat was more important than introducing new drugs that could generate only limited sales.

Mr Tom McKillop, research and technology director, considered the pharmaceuticals pipeline to be the most promising for many years. The division aimed to bring a new chemical entity for licensing each year. There would be no new compound launched next year, but Zeneca expected to receive seven new US drug approvals and make nine new submissions.

Four drugs were in regulatory development, said Mr McKillop. These included Merrem, an antibiotic, Casodex, an anti-cancer agent, Accolate, an asthma drug, and a compound called 204636, designed to treat schizophrenia. Analysts said the last two, which had been briefly described last year, were extremely promising but were some way from launch.

Mr Friend said profit growth presented the division with a singular challenge because of the rapid collapse in sales of Tenormin, the heart drug and the world's fifth best-selling drug. The rapid decline had been in spite of the preparations made well in advance of the expiry of its US patents.

He admitted the 12 generic versions of Tenormin had captured about 50 per cent of the market within a year, instead of the expected two years. Tenormin had proved the largest ever target for generics, he said.

ICI's own generic version had generated some sales until April, when prices had deteriorated. A programme called Wellspring, designed to create customer loyalty, had proved a rather limited defensive strategy.

Mr Friend said there were signs that the generics' progress was decelerating and Tenormin would end up with more than 25 per cent of the market. He added that the division should be back on its normal growth track by 1994. The group was far less dependent upon a single product and would be far more stable in the long-term.

Meanwhile, Zeneca's new drugs had progressed well, said Mr Friend.

Diprivan, the world's most important anaesthetic by value should generate sales this year of about £140m, an improvement of approximately 50 per cent. It enjoyed 65 per cent of the worldwide market for intravenous induction of anaesthesia. The company was looking to introduce the drug into the market for maintaining anaesthesia and sedation.

Zoladex, a cancer treatment, should generate revenues of £100m this year, a rise of about 50 per cent. The group said it hoped to gain approvals for the drug to treat hormonal tumours and benign gynaecological conditions. The market was becoming increasingly competitive, Mr Friend warned, but efforts to find a longer-acting formulation remained a high priority.

Barclays set to complete refinancing at Imry

By Our Financial Staff

BARCLAYS BANK is set to complete the refinancing of Imry, the troubled property company that owes it £440m, within the next two weeks.

The financial restructuring, which will keep Imry out of receivership, is likely to involve a provision against bad debts of about £240m.

It will also severe the company's ties with its chairman, Mr Wolfgang Stolzenberg, a Canadian-based businessman who also controls Castor Holdings, a property finance group that went into receivership this summer with estimated losses of over C$1bn (£500m).

Mr Andrew Buxton, chief executive of Barclays, said yesterday that some disclosure of the bank's provision against loan loss in Imry would be made as part of the company's restructuring announcement "within 14 days".

Mr Buxton said he did not know how explicit the disclosure would be, and whether it would include details of the size of Barclays' provision.

He said the bank normally did not give figures for specific provisions against company loans.

Barclays' involvement with Imry goes back to 1989, when Imry Merchant Developers was the target of a highly-leveraged £314m agreed bid, which was backed by a £215m loan from Barclays.

The decline in the property market forced Barclays to refinance the company in June 1991. Barclays doubled its exposure by providing a new £200m loan. Mr Stolzenberg bought out the other investors and took over as chairman.

Barclays has already made provisions of some £140m on the Imry loan, but it is likely to make a provision of about £100m in its results for the second half of 1992.

Opposition grows to Sugar's plans

By Paul Taylor

AMSTRAD'S share price fell 4p to 28p yesterday amid further signs that Mr Alan Sugar's 30p-a-share buy-back proposals for the consumer electronics group faces strong opposition from individual and institutional shareholders.

With today's 2.15pm deadline for the receipt of proxies for the company's extraordinary meeting nearing, two more large institutional investors said they had decided to vote against the proposals.

Standard Life, which holds 13.5m Amstrad shares, equivalent to a 2.3 per cent equity stake, said it was joining other institutional investors led by Prudential and Postel in opposing the deal. Another institution said it had already voted against the proposals, but did not wish to be identified.

Meanwhile Mr Sugar said late yesterday that he thought it was "highly unlikely" that trend shown in proxies already received by the company would be reversed before the Court and extraordinary meetings called to vote on the buy-back plan in London on Thursday afternoon.

He said that "quite a few more" proxy votes came in over the weekend, but that an unofficial count of the proxies received by Saturday night showed the same trend as those received by the close of business last Thursday when almost 60 per cent were against his proposed 'scheme of arrangement'.

Mr Sugar, who has a personal 35 per cent equity stake in Amstrad, has warned that the share price may fall sharply if his bid to take Amstrad private again is defeated.

Commenting on the share price fall yesterday he said it appeared some investors had already decided to "dump" their Amstrad stock.

With about 1.5m shares changing hands the stock fell as low as 22½p before recovering some of its losses.

Although proxies for Amstrad's EGM are due in today, proxies for the court meeting which preceeds the EGM on Thursday and must also approve the scheme, can be submitted up until the meeting itself.

Henderson in £42.5m expansion

By Philip Coggan, Personal Finance Editor

HENDERSON Administration has agreed to pay £42.5m cash for Touche Remnant, its fellow fund management group. The two companies announced they were in takeover talks in October.

As part of the deal, Société Générale, Touche Remnant's current owner, has agreed to take on the 22 year lease of TR's headquarters in London's Puddle Dock.

The TR staff will transfer to Henderson's office in Finsbury Avenue; Henderson estimates this will save £2.5m a year.

A condition of the deal is that Touche Remnant has net assets of £15.4m, and net cash (or its equivalent) of £18m, on acquisition.

The combined company will have about £9.9bn of funds under management, of which a quarter will be in investment trusts – making the group the biggest investment trust manager in the UK.

Mr Paul Manduca, Touche Remnant's chairman, will join the Henderson board and will be deputy group managing director.

The acquisition circular shows that Touche Remnant has incurred an operating loss of £3.07m in 1991. Interest receivable of £2.4m reduced the pre-tax loss to £668,000.

Henderson said that the takeover should bring considerable cost savings. Its operating expenses are equivalent to 0.4 per cent of funds under management; Touche Remnant's expenses represent 0.8 per cent.

The deal will have to be approved at an extraordinary meeting of Henderson shareholders on December 21. Henderson's shares rose 47p to 685p yesterday.

BP finds will lift reserves by 600m barrels

By Deborah Hargreaves

British Petroleum will add 600m barrels to its oil reserves from discoveries and appraisals completed this year, Mr David Simon, group chief executive, said yesterday.

Mr Simon said the new reserves of oil and gas equivalent would more than offset this year's production of 540m barrels which compares with last year when BP only replaced 78 per cent of its production.

A company's ability to replace its reserves is a key measure by which the stock market judges oil companies and BP has replaced only 80 per cent of its reserves on average over the past three years.

Mr Simon said the new reserves would include an initial 225m barrels from the Cusiana field in Colombia and 115m barrels from improved recovery from fields in Alaska.

The Cusiana find is important for BP which said yesterday that development plans were progressing well. Work on the first phase of full-scale production is expected to begin next year with output increasing to 150,000 barrels a day by 1995.

Cupid shares fall as founder quits

By Peter Pearse

SHARES IN Cupid plummeted from 85p to 53p as the USM-quoted bridal wear group reported that Mr Michael Murray, its founder, had "resigned from the board and from his position as group chief executive following a disagreement with the rest of the board".

Mr Michael Fort, the director who runs the retail division and was the only member of the board available yesterday, would not elaborate on the announcement beyond pointing out the warning in the press release that the outcome for the full year was "unlikely to exceed last year's results".

However, he did say that Mr Richard Lee, chairman and interim chief executive, was in close contact with the group's institutional shareholders about the share price fall.

The group reported pre-tax losses of £168,000 (profits £93,000) for the six months to September 30, but Mr Fort said that customary seasonal factors were exaggerated by Youngs, the formal wear business acquired in mid-January.

Much of the inflowing cash was taken before the acquisition, though most of the costs were incurred afterwards. Quilty, the nursery care division, also dragged down the pre-tax outcome.

Mr Alex Williamson, Quilty's managing director, has joined the main board which was strengthened by Mr Richard Shaw and Mr Robert Shepherd last August.

Group turnover rose to £8.5m (£6.07m) and interest payable to £184,000 (£129,000).

Losses per share were 1.27p against earnings of 0.85p and again there is no interim dividend.

Cowie swaps merchant banks

By Maggie Urry

T COWIE, the motor group, has replaced its merchant bank, Noble Grossart, appointing NM Rothschild.

Noble Grossart came in for criticism when Cowie's £32m bid for Henlys Group failed in September. The appointment of a new merchant bank suggests Cowie intends to pursue expansion by acquisition.

During the bid for Henlys, Cowie was asked by the Takeover Panel to make a number of corrections and clarifications to statements made about its offer.

Cowie is not changing its broking and legal advisers.

At the time, observers felt that Noble Grossart, which is based in Edinburgh, was not sufficiently experienced in hostile takeover battles.

Mr Gordon Hodgson, chief executive, said that Rothschild had been selected from a shortlist of five merchant banks, and the final choice had been a matter of personal chemistry between the company and the bank.

He said that Rothschilds' "extensive experience will help Cowie substantially in the evaluation of strategic acquisition and development opportunities in Britain and mainland Europe."

Cowie is keen to expand its vehicle leasing business into Europe where the industry is not as well developed. It is the market leader in the UK.

Stockbrokers also believe Cowie could bid for Henlys again, once a year has passed from the lapsing of its original bid, or earlier if another company bids first.

Cowie retains a 9.9 per cent stake in Henlys, bought at about 73p a share. This stake will be written down in Cowie's 1992 accounts, unless Henlys shares rise from yesterday's close at 67p. Cowie's shares rose 2p to 142p yesterday.

Analysts have cut profit forecasts for Cowie's profits this year from £25m, expected in the summer, to about £23m pre-tax compared to £18.2m in 1991.

Tomkins' £935m bid for RHM secured after first closing date

By Richard Gourlay

TOMKINS, the conglomerate, has secured its recommended £935m bid for Ranks Hovis McDougall, the milling, baking and grocery products company.

As of the first closing date yesterday, Tomkins either owned shares or had received acceptances in respect of the ordinary offer amounting to over 50 per cent of RHM's ordinary shares.

The offer was declared unconditional as to acceptances.

With Barclays de Zoete Wedd still counting acceptances, it was unclear last night what proportion of shareholders had accepted the shares and cash ordinary offer, the all cash alternative or the all share alternative.

Mr Greg Hutchings, Tomkins chief executive, said he was "ecstatic" with the outcome. On Wednesday, Tomkins would go into RHM to begin the work that would repay the shareholders for their support.

Tomkins is partially paying for RHM via a £653m rights issue. Shareholders last week paid the first £384m tranche.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales

1/2 hour period ending	Provisional Price for Trading on 08.12.92 Pool purchase price £/MWh	Firm Prices for Trading on 10.11.92 Pool purchase price £/MWh	Pool selling price £/MWh
0030	17.75	20.32	20.32
0100	23.34	23.90	28.24
0130	28.17	30.00	32.62
0200	28.17	30.00	32.56
0230	23.34	23.90	26.16
0300	23.34	23.90	28.17
0330	20.49	20.88	20.88
0400	18.48	20.32	20.32
0430	18.16	18.04	18.04
0500	18.16	18.04	18.04
0530	18.16	18.04	18.04
0600	17.81	18.04	18.04
0630	17.93	20.32	20.32
0700	23.08	23.04	25.32
0730	24.85	23.57	25.86
0800	24.88	23.74	26.01
0830	28.14	24.14	26.41
0900	29.89	24.34	26.61
0930	28.15	27.91	30.30
1000	29.69	27.91	30.30
1030	28.14	27.91	30.30
1100	24.88	27.91	30.30
1130	24.68	27.91	30.31
1200	28.14	27.91	30.30
1230	28.14	27.91	30.28
1300	24.68	27.91	30.28
1330	24.88	24.52	24.52
1400	20.87	24.52	24.52
1430	20.87	24.52	24.52
1500	20.72	24.52	24.52
1530	24.89	27.93	30.32
1600	28.80	29.25	32.01
1630	39.56	42.52	48.18
1700	52.74	63.34	70.25
1730	53.22	68.55	75.03
1800	44.52	57.49	62.37
1830	30.82	36.34	39.12
1900	28.42	28.08	30.34
1930	27.26	27.94	30.21
2000	24.88	27.91	30.20
2030	24.71	24.34	26.54
2100	23.34	24.14	26.35
2130	23.08	23.74	25.95
2200	23.08	23.57	25.79
2230	22.92	23.52	25.76
2300	18.48	20.68	20.68
2330	17.72	20.32	20.32
2400	17.72	18.06	18.06

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, e.g. £18.66/MWh becomes 1.866p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by NGC Settlements Limited. Anyone wishing to receive such information should telephone 0602-466788 between 8.30am and 5.15pm Monday to Friday.

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CORRECTION NOTICE
GREEK EXPORTS SA
ANNOUNCEMENT OF A PUBLIC AUCTION
FOR THE HIGHEST BID

The first paragraph published in the paper on December 5th and 7th should have read as follows:

Greek Exports S.A., registered in Athens (17 Panepistimiou str) legally represented in its capacity as Liquidator in accordance with article 46a of Law 1892/1990 supplemented by article 14 of Law 2000/1991 and after decision No 1208/1992 of the Piraeus Court of Appeal.

COMPANY NEWS: UK

Faber Prest expands by 53% to near £5m

By Roland Rudd

A REDUCTION in cost levels and the sale of loss-making businesses helped Faber Prest, the industrial and distribution services company, report a 53 per cent increase in pre-tax profits for the year ended September 30.

Profits increased from £3.14m to £4.8m, on reduced sales of £66.1m (£76.7m), and were struck after exceptional charges of £457,000 (£1.7m) relating to the loss from a disposal and continuing legal fees from proceedings in the US.

Mr Roger Feaviour, who was brought in two years ago as chief executive, has refocused the group around three core businesses; industrial services, transport distribution and car retailing.

Two new executives have been recruited to run the first two businesses, which the group hopes to expand.

Mr Ron Woodworth, who was a manager at Trafalgar House's Davy Corporation, and Mr Len Minnikin, who worked for the National Freight Corporation, are heading up industrial services and transport distribution respectively.

A group of smaller businesses, including truck franchises and heavy engineering, which Mr Feaviour said were "losing money handsomely" were sold for about £2m.

The divestments, along with a £500,000 reduction in working capital to £3.5m, helped reduce borrowings by £5.5m to £4m, representing gearing of 20 per cent (53 per cent).

Industrial services, which takes the metal out of slag for steel producers, reported a 13 per cent decline in operating profits, from £3.4m to £2.9m.

Distribution, which provides services to the UK industry, reported a 36 per cent increase in operating profits, from £1.48m to £2.02m, working from one central site instead of three.

Car retailing produced profits in line with last year at £362,000 (£366,000).

Earnings per share increased to 36p (28.83p).

The final dividend rises to 7.7p (4.3p) making a total of 12p (8.6p).

● COMMENT

A comparison with last year's figures was always going to flatter Faber Prest given that reorganisation costs were taken through 1991's profit and loss account.

That said, tight financial controls and reduced cost levels are making the desired impact. The group's brokers are forecasting that next year's pre-tax profits will rise to £5m, giving earnings per share of 33.5.

This puts the shares, up 15p to 345p, on a prospective multiple of about 10, a significant discount to the market. The stock's illiquidity remains a problem. There is nothing Mr Feaviour would like more than for the Prest family, which controls 37 per cent of the group, to sell some shares to help him attract new investors.

In Shops falls to £0.9m but sees recovery

By Paul Cheeseright, Midlands Correspondent

IN SHOPS, the Birmingham-based property group specialising in retail centres and serviced offices, reported reduced interim profits but predicted recovery in its next financial year.

Pre-tax profits for the six months to September were £903,000, against £1.05m, on turnover up at £12.2m (£11.1m). Earnings per share were 1.7p (2.05p) but the interim dividend is maintained at 0.66p.

During the first half In Shops lost £250,000 on its serviced office operations, but the retail centre business continued to expand.

New retail centres opened in Aberdeen and Paisley in Scotland and at Kings Heath and Sutton Coldfield in the West Midlands.

Although the second half was likely to be only marginally more profitable than the first, Mr Brookes believed the worst of recession had been seen but that recovery would not be reflected in business confidence for at least six months.

Davies & Newman wind up battle

By Jane Fuller

DAVIES & Newman Holdings, parent company of Dan-Air, was given a rough ride to its death by small shareholders at yesterday's extraordinary meeting in London.

The initial count on the resolution to wind up the group voluntarily showed 44 against and only 10 in favour. Well over 100 people attended the meeting.

However, the dissenters were swamped by proxy votes in a poll, with 400 holders of 41.6m shares in favour and 244 holders of 1.18m shares against. Liquidators from Price Waterhouse were appointed.

Shareholders in Davies & Newman, rescued in both 1990 and 1991, have ended up with nothing after the sale of Dan-Air, its main asset, to British Airways for £1. They were told the only alternative was receivership.

About 750 employees sank £542,000, at 50p a share, in last October's £49.3m rescue issue. It was these and other small shareholders who dominated yesterday's meeting.

Their angry questions were fielded by Mr David James, company doctor-chairman since autumn 1990.

Mr Peter Frankel said shareholders had been treated with contempt. He questioned whether the Stock Exchange should have waived the requirement to refer the BA deal to shareholders. Mr James replied that Davies & Newman would have gone bust before the procedure could be completed.

Having heard that an extra £10m would have enabled the company to shed the cost-albatross of its Boeing 727s, Mr Frankel asked whether the £8.75m paid in special fees to the banks should have been used instead to save the company. Mr James said £8.75m was "a drop in the ocean" compared with projected debt of £55m by next April.

Capt Robert Burgess, who used to fly one of Dan-Air's Boeing 727s, asked why pilots had only received the statutory minimum redundancy pay, adding up to perhaps £4,000, when he understood flight engineers got up to £35,000 and cabin staff up to £20,000.

He was told that different agreements had applied to different categories of staff, and there was a limit to the restructuring costs that could be attached to the BA deal.

Sir Ivor Broom, chairman of Gatwick Handling, in which Davies & Newman had a 50 per cent holding, said employee-shareholders had been misled in a September newsletter from Mr James pointing out that debt was low and cash positive at that point – although both points were true.

According to the EGM circular it had been realised by late August that new capital was essential to enable the group to trade beyond the third week of October. Mr James said the September newsletter had pointed out that new funds would be needed. Talks with Mr Richard Branson, of Virgin Atlantic Airways, had raised hopes of fresh investment.

With Mr James contending that Dan-Air's dwindling charter business was the main reason for its loss of independence, one shareholder asked how much had been "wasted on setting up new scheduled routes and then closing them down because of recession?"

Overseas growth boosts Tunstall

By Peggy Hollinger

TUNSTALL Group, the manufacturer of emergency communication systems for the disabled and elderly, reported a 21 per cent increase to £5.29m in pre-tax profit for the year ended September 20. Sales rose 9 per cent to £40.5m.

Mr Michael Dawson, chairman, said the group had performed well, "despite adverse economic conditions both in the UK and overseas".

Part of the increase was due to the inclusion for nine months of Ohmeda Schmelter, acquired for £3.3m in January and renamed Tunstall ComSystem. The purchase contributed £5.3m to sales and £500,000 to trading profit.

About 20 per cent of Tunstall's sales were now overseas, against 5 per cent last year.

The group also benefited from a £232,000 interest gain, against a £96,000 charge last year.

Mr Dawson said the under-exploited German market would provide good opportunities for growth in the coming years.

Tunstall's immediate opportunity, however, would be the introduction of the UK government's Care in the Community programme.

The final dividend is raised to 3.75p, making 6p (5.35p). Earnings per share rose from 17.4p to 21.6p.

Radio Clyde on song with 30% advance

By Matthew Curtin

RADIO CLYDE Holdings, the USM-quoted broadcaster which has the lion's share of Scotland's independent airtime, increased pre-tax profits by 30 per cent from £1.4m to £1.83m in the year to end-September.

Turnover jumped 38 per cent to £13m (£9.45m), reflecting the merger with Radio Forth in April last year and increases in local and national advertising revenue, which contributed two thirds of overall income.

Earnings per share improved to 13.2p (12.4p), the modest increase reflecting the larger number of shares in issue after the all-share payment for Radio Forth. A final distribution of 5.25p (5p) is recommended which lifts the total to 8.5p (8.25p).

Mr James Gordon, chief executive, said the group was increasingly successful in convincing "advertisers south of the border that things are not so gloomy in Scotland".

Local advertising revenue rose 6 per cent, but national advertising climbed 10 per cent, and overall advertising revenue in the past two months was 10 per cent higher than a year ago.

He said the results would have been even better had it not been for a £468,000 extraordinary write-off and losses at Buzz FM, a Birmingham station in which the group had built up a 97.5 per cent stake.

Clyde could no longer support the drain on its cash reserves, and by cutting off financial support, had opened the way for a new backer or outright buyer for Buzz.

Mr Gordon said the outlook for Clyde was good, but it was not clear yet whether rising advertising revenue would return to the levels of 1989 and 1990.

The group had a strong balance sheet and was eager to expand, planning to tender for two out of five newly-advertised regional licences, having missed out so far on national tenders.

NEWS DIGEST

Compco jumps 33% to £319,000

COMPCO HOLDINGS, the property investment and development company, reported pre-tax profits of £318,880 in the six months to September 25, an increase of 33 per cent on last time's £239,860.

Mr David Pickford, chairman, said that net rental income had continued to grow – up from £804,813 to £1.05m – despite the difficult economic climate.

Earnings per share worked through at 8.21p against 7.05p.

Melville calls for fresh funds

Melville Group, the exhibition services and interior fitting company, yesterday announced preliminary results for the year to June 30 along with a refinancing by way of a subscription and a 1-for-3 rights issue to raise between £3.3m and £4.4m net.

The refinancing will be via a subscription of 75m new ordinary shares at 5p each by funds managed by Lowe Finance and a rights issue of up to 29.84m new ordinary, also at 5p in which the Lowe Funds will participate. After completion these funds will hold between 55 per cent and 62 per cent of the issued capital.

Melville reported pre-tax profits of £593,000 (£3.13m) for the year to June 30, after an exceptional loss of £1.42m on the closure of Melville Espana's factory.

Extraordinary charges totalled £18.6m, of which £16.6m related to property.

Losses per share were 1.36p against earnings of 4.81p; there is no dividend (3.2p).

Rolfe & Nolan advance checked

Progress at Rolfe & Nolan, the futures and options computer bureau and software specialist, was checked in the six months to August 31.

After allowing for 100 per cent of the losses of Brokerage Systems Inc, in which the group acquired a 19.9 per cent interest, pre-tax profits were only marginally ahead at £707,000 compared with £704,000. Without BSI they would have been a 15 per cent higher at £813,000.

Group turnover was £5.31m of which Rolfe & Nolan contributed £3.89m (£3.28m), a rise of 19 per cent. Earnings per share, including 19.9 per cent of BSI's loss, increased to 8.9p (8.5p) and the interim dividend is raised from 2.3p to 2.55p.

Total Systems advance 21%

Total Systems, the USM-quoted computer software and hardware company, reported pre-tax profits ahead 21 per cent in the six months to September 30.

Turnover rose 6 per cent to £1.36m (£1.29m) for profits of £425,000 (£351,000). The result was helped by increased interest received of £60,000 (£20,600). Earnings per share came out at 2.85p (2.38p) and the interim dividend is doubled to 1.5p.

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres-ponding dividend	Total for year	Total last year
Acal §	int	2.1	Feb 1	1.95	-	5.85
Acorn Inv Tst	fin	nil	-	1.5	nil	1.5
Airtours	fin	6.7	Feb 19	5.25*	7.25	5.75*
Cranswick §	int	2.4†	Jan 29	2.3	-	7.5
Faber Prest	fin	7.7	Jan 22	4.3	12	8.6
In Shops	int	0.66	Jan 11	0.66	-	2.63
Melville Group	fin	nil	-	1.6	nil	3.2
Morris Ashby §	int	1.7	Mar 31	1.7	-	4.7
Radio Clyde	fin	5.25	Feb 12	5	8.5	8.25
Rolfe & Nolan	int	2.55	Jan 21	2.3	-	6.2
Scot & Newcastle	int	5.76†	Feb 12	5.51	-	16.1
South Wales Elec	int	6.8	Feb 24	5.8	-	19.4
Stratagem Group	fin	4.75	Jan 14	4.5	4.75	4.5
Total Systems §	int	1.5	Feb 1	0.75	-	2.25
Tunstall	fin	3.75	Feb 3	3.2	6	5.35
Vega	int	0.87	-	nil	-	3.71
Wellman	int	0.3†	Feb 15	0.8	-	2.2
Westland	fin	3	Feb 22	2.75	4.25	4

Dividends shown pence per share net except where otherwise stated. †On increased capital. *Equivalent after allowing for scrip issue. §USM stock.

South Wales Electricity jumps 43% to £29.7m

By Michael Smith

THE comparative resilience of the local economy and the disposal of loss-making retail activities helped South Wales Electricity raise interim pre-tax profits by 43 per cent, from £20.7m to £29.7m.

The company expressed doubts about the possibility of signing one-year contracts for coal-fired electricity before the energy white paper, in spite of an apparent preference for this option by Mr Michael Heseltine, the president of the Board of Trade.

Mr David Jones, managing director, suggested that one way of increasing the market for coal would be to change the franchise non-competitive market limit from 1mw in 1994 to more than the planned 100kw.

In the six months to September 30 turnover expanded from £256.5m to £260.5m. Domestic unit sales grew by 0.9 per cent and commercial by 4.3 per cent, but industrial sales declined by 0.4 per cent.

The company became the first rec to become cash positive since privatisation. Interest contributed £400,000, against payments of £1.5m the first half of 1991.

Although the company was helped by the sale of the retail arm, which lost £2.5m in the first half of 1991, Celtic Contracting incurred a loss of £1m this time.

However, Mr Wynford Evans, chairman, said he expected Celtic to be back in profit next year, following a restructuring of terms and conditions of the 200 employees which will see weekly hours increase from 39 to 42 and the wage bill fall by 20 per cent.

In the core business there was a reduction of 7.7 per cent in staffing during the period. Staffing across the whole group has fallen 14 per cent in the last 18 months.

The interim dividend goes up to 6.6p (5.8p), payable from earnings of 20.5p (13.6p) per share.

● **COMMENT**

South Wales could scarcely have hoped to recreate the impact of the full year results, when it became the first regional electricity company to cut prices since privatisation, but it did its best. Buoyed by becoming the first cash positive rec and by relatively impressive volume growth, it is increasing its dividend more than other recs so far and the shares rose 8p to 507p. Nonetheless, Celtic's losses are a reminder that contracting is a cyclical business even if it does make money next year. A full year distribution of 22p would give a prospective yield of 5.8, which is slightly below the average and leaves little room for the company to continue outperforming.

Margins maintained as Acal declines by 12%

By Paul Taylor

ACAL, the electronics and industrial controls distributor, reported lower interim profits although turnover increased as a result of recent acquisitions.

Pre-tax profits for the six months to September 30 fell by 12 per cent from £1.52m to £1.34m on turnover which grew from £29.1m to £30.9m, including £3m attributed to recent acquisitions. Turnover in the underlying business slipped by 5 per cent, but was maintained at the same level as the second half of last year.

Earnings per share dropped to 6.3p (7.1p), in part reflecting the 680,000 new shares issued at 214p each in July to fund the acquisition of Belgium-based Betea Components for BFr97m (£1.95m). The interim dividend is increased by 7.7 per to 2.1p (1.95p) per share.

Mr John Curry, chairman, said gross margins had been maintained during 1991 and 1992, despite tough market conditions. Operating profit slipped to £1.66m (£1.82m).

He added that the electronics divisions held up well in both the UK and continental Europe, although there were now signs of softness in northern Europe.

Sales in the industrial and refrigeration divisions were down in most of Europe. Nevertheless Mr Curry said the group was achieving growth outside Europe in the refrigeration business set up last year.

He added that the group was seeing a small growth in orders during the current financial year. "We are no longer eating into the order backlog and gross margins are reasonably stable in spite of currency fluctuations and very competitive market conditions," he said.

With more than 70 per cent of the group's business overseas, the group should also be a net beneficiary of the recent effective devaluation of sterling on translation of overseas earnings.

Ready to take a leap forward

Alan Cane on Tadpole Technology's move to the main market

FOLLOWERS of Tadpole Technology, a small electronics company with headquarters in Cambridge, England, and Austin, Texas, have waited long enough to see their loyalty rewarded.

Now the moment of metamorphosis may be at hand. Tadpole, distinguished by world class technology and intermittent profitability, last week leapt from the over-the-counter market to a full listing, raising sufficient funds on the way to put its finances on a sound footing for the first time since its foundation in 1984.

The placing of just over 7.4m shares at 65p a share was fully subscribed, leaving the company with £4.8m minus expenses.

The shares started trading yesterday, closing at 85p.

After clearing its accumulated debt, Tadpole will have some £2m to buffer what could prove to be explosive growth.

Investors' hopes are pinned to Tadpole's disclosure last week that in addition to an existing relationship with Sun Microsystems, one of the fastest growing and most aggressive US workstation manufacturers, it has secured a strategic alliance with International Business Machines, the world's largest computer manufacturer, through which IBM will market a yet-to-be-announced Tadpole product and the US giant will take up to 10 per cent of the enlarged equity stake in the company.

Tadpole is one of an elite group of electronics companies founded in the Cambridge area over the past two decades by graduates anxious to remain within bicycling distance of their alma mater. Chief executive, Mr George Grey, was 23

George Grey: joint founder of Tadpole Technology

when he founded the company in partnership with Mr Martin Jackson. Mr Jackson now works for EO, also based in Cambridge, which is developing an innovative personal communicator.

Mr Grey says that from the first the company was technically overambitious and under-capitalised. Its four-year track record – it lost money in 1989, 1990 and 1992 – is awful. In 1992 it incurred a loss of £1.69m.

Closer inspection reveals that turnover has been rising rapidly; from £5.7m in 1989 to £12.5m last year. And most of the company's business is now either in the US (76 per cent in 1992) or mainland Europe and Scandinavia (18 per cent).

What does Tadpole do that warrants such recognition abroad but has so far failed to make it a commercial success? It is a specialist in the design and fabrication of complex printed circuit boards, tailored to its customers' exact specifications. Customers include GEC of the US, Unisys and Polaroid Corporation. Its expertise is centred on the Unix-operating system, widely tipped to become the world standard for business computing over the next decade.

The company is generating most excitement these days through its developments in portable workstations.

Workstations are personal computers writ large – in performance terms anyway. When aeronautical engineers put a Boeing 747 through maintenance tests they taxi the jumbo jet into a hangar where it is connected through an umbilical cord to a desktop workstation, typically made by Sun Microsystems.

Tadpole has exploited its board technology to develop a notebook-sized version of the Sun workstation that can be carried aboard the airliner on the runway.

Tadpole calls its computer the "Sparcbook", after Sun's high performance Sparc microprocessor chip. A few hundred have been sold for evaluation; orders in lots of 1,000 or more are expected next year. An important feature of Sparcbook is a software system which enables it to link into and form part of the user's network while away from the office.

Last week Tadpole announced that it had agreed to develop workstation notebooks for IBM based on the US maker's "Power PC" designs. Tadpole will develop the computers and IBM will market them.

The agreement is contingent on the completion of equity negotiations between the two firms. IBM's total investment in Tadpole in equity and development funds will be not less than $3m.

George Grey said: "The Power PC architecture is one of the key microprocessor architectures of the next decade".

Mr Grey explains the company's precarious finances to date as the result of an indulgence in research and development that was not supported by corresponding sales. Changed accounting conventions resulted in one set of losses; failure on the part of the US semiconductor manufacturer, Motorola, to deliver a new chip on time was another.

The company has taken steps to strengthen its financial management, appointing as deputy group chief executive Mr Jeremy Woan, a 33-year-old former investment analyst with Citicorp Scrimgeour Vickers and Hoare Govett.

The group finance director is Mr Robert Booth, who joined in 1991 after 10 years in the pharmaceuticals business. Mr Richard King, who prior to retirement was chief executive of Cambridge Electronic Industries, was appointed non-executive chairman this year.

Could Tadpole emulate Microfocus, the UK software company whose share price is now hovering around £24, pushed up by US investment? There are strong parallels.

Both companies have bigger businesses abroad than at home and both sell key components to large US electronics companies.

An ADR offering from Tadpole could be on the cards in a few years. The task at hand, however, is to turn the company round and manage the anticipated growth surge.

Observers think that pre-tax profits in 1993 could be about £1.3m, or earnings per share of 6p.

Vega improves 22% in first results since flotation

By Daniel Green

A SERIES of new contracts helped Vega Group, the space engineering specialist, report a 22 per cent rise in interim pre-tax profits to £631,000 in the company's first set of figures since its flotation in June.

Turnover for the six months to October 31 was £3.62m (£2.76m) and earnings per share were 2.9p (2.5p). The interim dividend is 0.87p.

"The company remains relatively unaffected by the current economic recession," said Mr John Rigg, chairman.

During the period, the company won contracts worth about £3m which were in excess of the £15m of contracts included in the placing document.

Customers include the Ministry of Defence, the European Commission and the European Space Agency.

Current trading was strong, said Mr Rigg. "We have no borrowing and we expect to continue to generate cash."

He did not rule out the possibility of acquisitions and had looked at takeover targets in the UK and the rest of Europe. No takeover talks were yet under way.

The shares lost 2p to 122p.

NEWS DIGEST

Wellman retreats to £321,000

WELLMAN, the West Midlands-based engineer, saw profits dip to £321,000 pre-tax for the six months to September 30.

The downturn from the previous £344,000 came on turnover of £13.4m (£13.7m), although Mr Geoffrey Iley, chairman, said comparisons were distorted by the purchase in May of Midcast Engineering.

The acquisition, which took the group into the North American market, made a contribution to trading profits on turnover of £900,000, although UK deliveries were lower than anticipated; benefits from rationalisation were being realised, Mr Iley.

Midcast has won orders worth $3.4m (£2.2m) from North America.

Other group businesses showed little change in profits, but overseas subsidiaries in South Africa and Australia incurred small losses.

Fully diluted earnings fell to 0.6p (0.7p) per share. The interim dividend is cut from 0.8p to 0.3p; a final of not less than 0.6p is forecast.

Tarmac sells Feb to Sandoz for £14m

Tarmac is continuing its divestment programme with the sale of Feb International, the chemicals manufacturer, to Sandoz of Switzerland for £14m cash. The price is subject to adjustment depending on levels of working capital on completion.

Feb, based in Swinton, supplies the building and construction industries and has sales of about £30m. Tarmac paid £8m for the company six years ago when sales were about £20m.

Tarmac has retained Feb's site in Kent where it will make Aquaseal bituminous-based products for Feb.

Morris Ashby advances strongly

As forecast at the 1992 year end, pre-tax profits of Morris Ashby, the USM-quoted specialist aluminium diecasting and machining group, showed a strong advance in the six months to September 30.

From turnover up by £1.3m to £8.13m pre-tax profits leapt by 33 per cent from £481,000 to £639,000.

Earnings per share were 5.5p (4.4p). The interim dividend is maintained at 1.7p.

Acquisition gives boost to Cranswick

Cranswick, the USM-quoted pork products and animal feeds company, lifted interim pre-tax profits by 47 per cent, from £656,000 to £968,000, in the six months to September 26.

Turnover was 31 per cent higher at £49.7m and the company said the second half of the year had started well.

The improved performance was mainly due to the acquisition last November of Yorkshire Country Pork. Sales of pork products jumped by £12.5m to £17m during the period.

Earnings increased to 6.4p (6.3p) per share. The interim dividend is 2.4p (2.3p).

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Monday, December 7, 1992. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

COUNTRY		£ STG	US $	D-MARK	YEN (X 100)
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Abbreviations: [illegible]

Palladium surge linked to cold fusion interest

By Kenneth Gooding, Mining Correspondent

PALLADIUM'S PRICE rose to its highest level for 27 months in London yesterday and some analysts linked the surge with recently renewed interest in cold fusion, which some scientists suggest might become a source of limitless energy.

But some traders were more prosaic. "Someone is squeezing the hell out of the market," one suggested. "If this was one of the London Metal Exchange metals, someone would be having their knuckles rapped for doing some naughty manipulation."

Whatever the reason, palladium was fixed in London yesterday at $105.75 a troy ounce, up $2.75 from Friday.

The market brushed off news that Russia, the world's biggest producer, had denied rumours that it had been forced to buy metal on the market. Reuter quoted Mr Nikolai Menshikov, director of Almazjuvelirexport in Moscow, as saying talk that Russia had been buying palladium from South Africa was "100 per cent not true".

Palladium, used by the electrical and dental industries and by car catalyst producers, reached $178.50 an ounce in April 1989, as industrial users panicked after speculators had moved in following news that US scientists claimed to have produced nuclear fusion at room temperatures using electrodes of palladium in heavy water.

However, the excitement died away until October this year when scientists at Nippon Telegraph and Telephone, which has one of the world's leading industrial laboratories, said it had been able to repeat their cold fusion procedure five times with identical results. Although details of the process, the Japanese also employed a plate made from palladium with one side coated with palladium oxide.

Analysts pointed out that recent speculative buying of palladium originated in Tokyo and was fueled by various rumours about shortages and interruptions to supply. Also, in a recent study of the market, Johnson Matthey, the world's biggest platinum marketing group, suggested there would be a shortfall in supply of 110,000 ounces this year.

Mr Andy Smith, analyst at Union Bank of Switzerland, pointed out that other platinum group metals had not benefitted from palladium's rise and neither had silver, another "white" metal. "Demand is certainly not going up," he said.

Kazakhstan to sell three oil concessions

By Deborah Hargreaves

KAZAKHSTAN is trying to speed up western investment in its oil industry by offering three oil exploration blocks for competitive tender early next year. Deputy prime minister Baikenov said in London yesterday that if the first licensing round is a success, he will develop plans for offering other areas for international exploration.

The three blocks on offer are in the Pre-Caspian basin: two in west Kazakhstan and the third in the province of Aktiubinsk. The newly-independent country is soliciting bids from the oil industry by May 1993 and the winners will be announced in July.

Mr Baikenov said a 640km stretch of the oil pipeline from Tengiz to the Black Sea port of Novorossiisk would be completed in April, with a further 720 km to be added by November next year. He said this pipeline would be operational by 1995.

He said the Kazakh authorities are eager to attract foreign investment for the improvement and construction of oil refineries and petrochemicals plants as well as for exploration.

Kazakhstan has secured several big deals with international oil companies since declaring its independence from the former Soviet Union in December last year. Mr Baikenov said 28 projects are currently under discussion with foreign partners.

Chevron, the US oil company, is involved in a joint venture with Tengizneftegaz to develop the huge Tengiz and Korolev fields in the Pre-Caspian basin. British Gas and Agip, the Italian gas company, received exclusive negotiating rights to develop the Karachaganak oil and gas field, which is estimated to contain two to five billion barrels of oil.

Mine tender limited to Russian bidders

By Leyla Boulton in Moscow

RUSSIAN authorities are to put the country's biggest gold mine out to tender to Russian enterprises, overriding claims to it by an Australian consortium allied with a local Siberian mining company.

Mr Boris Yatskevich, deputy chairman of Russia's State Geology Committee, showed the Financial Times an order from Mr Yegor Gaidar, the acting Russian prime minister, for a tender for Russian bidders to be held by March 1.

The decision is likely to be challenged by Australia's Star Technology Systems, which has claimed an inalienable right to the deposit thanks to its 31 per cent stake in Lenzoloto, the joint-stock company which owns land on which the deposit has been found.

Mr Yatskevich said the decision over Sukhoi Log did not mean Russia was turning its back on foreign investors. But he said that Russian enterprises had to be given a crack at projects accessible to them.

The Udokan copper mine project, in contrast, was highly complex and would require foreign participants. "I'm only a bureaucrat who wants everything to be done according to the law and in the national interest," he said.

Mr Yatskevich said permission given in April by Mr Gaidar for Lenzoloto to be turned into a closed joint stock company with rights to the mine did not mean that these rights could be shared with Star. It is precisely on this authorisation that Star is basing its case. Mr Yatskevich said Lenzoloto also failed to confirm its licence to exploit the mine in accordance with registration procedures issued this summer.

However, embarrassingly for the government, its own Committee for State Property registered an open joint stock company in August with Star as a shareholder.

Dreaming of a dry Christmas

Heavy rain and flooding has damaged the UK's potato and sugar beet harvests and delayed the planting of next year's cereal crop

I'M dreaming of a dry Christmas, just like the ones we had before. For if Britain's weather does not improve very soon, losses of this year's crops still in the ground, and some of next year's crops not yet planted, could rise to alarming levels.

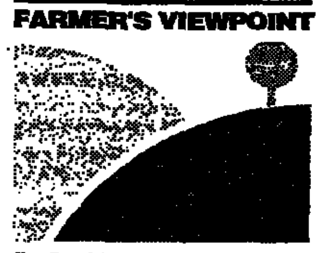
Some commentators have put part of the problem down to the complacency of farmers. After a series of dry, easy autumns, they say, farmers thought that this was the pattern for the future and forgot how to plan ahead and deal with a wet one. Undoubtedly these allegations contain an element of truth. But it should also be remembered that many areas have had a full average year's rainfall in just four or five months and that some entire valleys in Wales and the West Country have been flooded for many days.

In the east, where I farm, natural drainage through the soil has not been able to cope with the quantities of rain that have fallen. The other day we had reason to dig a hole in a field and, though the surface of the soil was like thick soup, a couple of feet down the subsoil was only just moist. This gives credence to the water authorities' claims that water tables have not yet been replenished after four years of drought.

Worst affected have been root crops like potatoes and sugar beet. In order to harvest them it is necessary to dig them out of the saturated soil. Needless to say this has been a frustrating and at times impossible task this year. Hundreds of horsepower has been harnessed to the front of lifting machines and trailers in an attempt to drag them along and salvage such crops. But still substantial acreages remain unharvested.

These, often abortive operations have damaged the soil structure considerably. All over the potato growing areas there are part harvested fields characterised by deep water-filled tractor wheel ruts.

FARMER'S VIEWPOINT



By David Richardson

Many of the potatoes which have been lifted under such appalling conditions have themselves been so badly damaged and bruised that they would be unlikely to keep in store. Pushing them on to the spot market while they were still saleable has contributed to the rock bottom prices growers have had to accept this year.

Indeed it has been a thoroughly bad year for potatoes. Yields grown have, ironically, been far too high for profitable prices. At no time during the season has there been any prospect of a shortage and, even if many of those still locked in the land are never lifted, there will be plenty of potatoes to satisfy demand.

And now the Potato Marketing Board (PMB) is under threat. Its statutory powers to control the area grown are regarded by many farmers as vital to the relative stability of the UK market compared with those in the rest of the EC. As president of the Council of Agriculture Ministers, Mr John Gummer, UK minister of agriculture, has proposed a so-called "light" EC regime for potatoes. If adopted, it would create a virtually free market, with no controls.

Mr Jim Godfrey, the newly-elected chairman of the PMB, has rejected the proposals and he claims they have also been rejected by most other European potato growers on the grounds that the UK's system is envied all over the Community and should be extended, not abolished. It seems unlikely, however, that growers' antagonism will prevent the proposed EC regime, or something very close to it, from being adopted.

But to return to the wet weather. A few days ago I received from British Sugar, the monopoly processor of all the sugar beet grown in this country, a letter reminding me that the optimum date for completing the beet harvest was the fifth of December; that I should, by then, aim to have my whole crop in clamps and covered to protect it from frost. For some of this year's big crop of roots will have to be stored on farms until next March because the processing factories will not be able to deal with them earlier.

A couple of very wet days later I learned that British Sugars' estimate of the quantity of sugar beet still to be harvested was 30 per cent of the acres planted. Clearly growers, myself included, had been unable to respond to the message because of the wet soil.

We will now have to take every opportunity to harvest the rest of the crop – if that proves possible. For some land is so badly waterlogged that it is impossible to run a tractor across it, let alone pull heavy harvesting machinery.

But it is the knock-on effect of all this that is potentially the most worrying. Significant acreages of the land still carrying unharvested root crops were planned to have been planted with wheat and winter barley for harvesting next July and August. It has, in fact, been calculated that UK planting is 20 per cent behind schedule and it is now highly questionable, even if the roots are gathered successfully, whether it will be wise even to try to plant cereal seeds into cold wet land that has been subjected to such mechanical abuse.

Germination in near freezing conditions will be slow, if it occurs at all, and potential yields will be much reduced. Indeed many of the autumn cereals already planted are suffering from the cold and wet and this in turn makes them more vulnerable to attack by predatory slugs.

This has, in fact, been the worst year I can remember for slug grazing damage to cereals. Slugs love wet weather. They also enjoy the residues of chopped straw in the soil which is now more widely available since the straw burning ban. There is little doubt that this has combined to create an ideal environment for the slimy little vandals.

All this means that next year's potential UK cereal harvest is already severely reduced. Taken together with set-aside, it could mean that the UK produces 25 per cent less than last year and that would take it from sixth biggest cereal exporter to barely having sufficient to satisfy domestic demand.

And given that the same kind of weather conditions have been experienced in most of the northern European corn belt, it would not seem unreasonable to suggest that the 1993 harvest across the Continent will be significantly reduced. Indeed I will speculate that the combination of set-aside and bad weather could cut the total EC cereal yield by at least 15 per cent and perhaps up to 20 per cent.

Should that happen, the EC would go from an "embarrassing surplus" of cereals to modest shortage in just one year.

Is this what CAP reform was intended to achieve? Did the Euro politicians really want to risk cutting production by that much? Or did they, as they sat in their Brussels ivory tower, take it for granted that the farmers of Europe together with the Almighty would continue to increase production no matter what?

As an old farmer once said to me, the trouble with the Almighty is that he has no sense of proportion.

IWC says output of wheat will recover

By David Blackwell

WORLD WHEAT production could recover further from the poor levels of 1991-92 to reach 575m tonnes in 1993-94, the International Wheat Council said in its initial forecast for the coming year yesterday.

While this is still well below 1990-91's 594m tonnes, it marks a steady advance from 544m tonnes in 1991-92 and 557m tonnes estimated for 1992-93.

The IWC expects CAP reform in the EC and the Gatt talks to have limited impact on world production. The effect of EC reforms "is likely to be limited in 1993-94, particularly since most small farms will not have to comply with set-aside provisions". As for Gatt, further progress is necessary "before meaningful reforms can be implemented".

Production improvements are likely to be concentrated in traditional importing countries, the council suggests. "Import demand might therefore be expected to fall in some regions, notably in Africa, central and southern America, eastern Europe and parts of Asia, including India."

Therefore the council expects world trade in wheat to fall further in 1993-94 to between 98m and 100m tonnes from an estimated 104m tonnes this year. But it points out that this year has demonstrated the unpredictability of the grain trade, with imports lower than expected in China but higher in India and Brazil.

Russia will continue to be a large importer, making the provision of credit facilities by exporting countries crucial.

The CIS and developing countries account for about 85 per cent of the world wheat trade. "The limited prospects for renewed global economic growth, and the continued high level of international debt of the world's poorest countries, will again inhibit effective import demand."

Papua New Guinea wants 30% stake in Lihir gold project

By Kenneth Gooding

THE NEW government of Papua New Guinea has indicated it wants a 30 per cent shareholding in the Lihir Island gold project, which aims to develop one of the world's biggest and lowest-cost deposits of the precious metal.

Until recently it was expected that the government would take a 20 per cent stake. RTZ Corporation of the UK owns 80 per cent and PNG-based Niugini Mining 20 per cent.

Mr Geoff Loudon, chairman of Niugini, said the partners in the project would welcome government involvement at this level but he questioned PNG's ability to pay.

Mr Loudon, talking to analysts in London yesterday, pointed out that the PNG government would have to provide 30 per cent of the costs incurred so far – totalling US$125m – as well as its full share of development costs, estimated at $760m.

He said the present disputes between the PNG government and the owners of the Porgera and Mt Kare gold mines – which have sent share prices of the mines' operating companies tumbling – obviously did not make it any easier to raise money.

Mr Loudon suggested the PNG elections had delayed the start-up of Lihir until 1996 because it was unlikely the government would issue the necessary special mining lease until March or April next year. It would then take at least 27 months and up to 33 months for construction of the processing plant and underground mine.

There are 42.2m troy ounces of gold in Lihir's proven and possible reserves. Production is scheduled to be an annual 620,000 ounces for the first few years, rising to 1.3m ounces.

Lihir is expected to be one of the world's lowest-cost gold mines with total costs of $248.75 an ounce in the early years (including $163.20 cash operating costs) but it will take several years for the partners to cover their investment. Mr Loudon said this was acceptable for a project with a life of 30 years already established.

He said negotiations for RTZ to sell some of its shareholding in Lihir were going smoothly and RTZ's eventual stake would depend on the PNG government's final decision about how much it wanted.

Niugini had first right of refusal on the RTZ shares and previously Mr Loudon said his company would buy all that was available. Yesterday, however, he said that if RTZ decided to sell its total holding in Lihir, "it would be unrealistic in present market conditions" for Niugini to buy all the available shares.

WORLD COMMODITIES PRICES

MARKET REPORT

LME base metals largely built on earlier gains in the afternoon and closed steady, while nickel prices ended firmer. Dealers said **NICKEL** continued to trade within a wide range, with short covering emerging in the afternoon after Chinese buying in the morning. **COPPER** ran into some late option-related selling, which prevented three-month metal moving above the $2,220-a-tonne resistance level. But prices still closed firmer after early Chinese buying, with final business at $2,219, up $19. London's **COCOA** closed near the day's lows as sterling's continued advance kept the market under pressure in quiet conditions. Dealers said the physical market was also subdued with little sign of any further origin activity after small-scale Ivorian sales towards the end of last week. Robusta **COFFEE** futures closed marginally lower with the market experiencing a temporary halt in its upward trend. Dealers said it would probably now take buying from roasters to generate further gains.

Compiled from Reuters

London Markets

SPOT MARKETS		
Crude oil (per barrel FOB)(Jan)		+ or -
Dubai	$16.00-6.10u	+.025
Brent Blend (dated)	$18.20-8.25u	-.075
Brent Blend (Jan)	$18.10-8.20	-0.10
W.T.I (1 pm est)	$19.10-9.15u	-.075
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$193-195	-2
Gas Oil ♦	$176-177	+1
Heavy Fuel Oil	$75-77	-1
Naphtha	$174-176	+1
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$335.15	-0.30
Silver (per troy oz)♣	374.50c	-2
Platinum (per troy oz)	$365.5	+0.5
Palladium (per troy oz)	$105.75	+2.75
Copper (US Producer)	101.0c	
Lead (US Producer)	34.62c	+1.12
Tin (Kuala Lumpur market)	14.21r	-0.03
Tin (New York)	287.5c	-1
Zinc (US Prime Western)	62.0c	
Cattle (live weight)†	116.31p	+3.15*
Sheep (live weight)†♣	80.44p	+4.56*
Pigs (live weight)†	87.21p	+0.42*
London daily sugar (raw)	$219.0w	-1.6
London daily sugar (white)	249.5w	-1.0
Tate and Lyle export price	£248.0	-0.5
Barley (English feed)	£138.0z	
Maize (US No. 3 yellow)	£155.0	
Wheat (US Dark Northern)	Unq	
Rubber (Jan)♥	62.50p	
Rubber (Feb)♥	62.75p	
Rubber (KL RSS No 1 Jan)	225.5m	+1.0
Coconut oil (Philippines)§	$470.0y	-5
Palm Oil (Malaysian)§	$405.0z	+2.5
Copra (Philippines)§	$320	
Soyabeans (US)	£165.5	
Cotton "A" Index	54.10c	
Woollops (64s Super)	417p	-3

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. y-Jan/Feb u-Jan. w-Dec/Jan. z-Jan/Mar. †Meat Commission average livestock prices.* change from a week ago ♥London physical. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg. ♣Sheep prices are now live weight prices. ♦ Gas Oil Price for 3/12/1992 174-175 down 2

SUGAR – London FOX			($ per tonne)	
Raw	Close	Previous	High/Low	
Mar	188.00	192.00	189.0	184.00
May	193.00	195.00	194.0	
White	Close	Previous	High/Low	
Mar	251.20	252.00	252.00	250.20
May	254.20	254.50	254.70	253.30
Aug	260.00	260.50	260.90	259.30
Oct	246.50	248.30	248.00	245.60
Dec	249.50		249.30	248.00
Mar	252.50		251.50	

Turnover: Raw 19 (18) lots of 50 tonnes. White 693 (608) Paris- White (FFr per tonne): Mar 1356.39 May 1384.60

CRUDE OIL – IPE			$/barrel	
	Latest	Previous	High/Low	
Jan	18.15	18.05	18.18	17.82
Feb	18.10	18.03	18.15	17.82
Mar	18.09	18.05	18.14	17.85
Apr	18.07	18.03	18.07	17.84
May	18.06	18.05	18.05	17.85
Jun	18.08	18.04	18.08	17.85
Jul	17.88	18.09	17.88	
Sep	18.13		18.13	17.90
IPE Index	18.23	18.20		

Turnover 30581 (37706)

GAS OIL – IPE			$/tonne	
	Close	Previous	High/Low	
Dec	170.75	170.25	171.00	167.50
Jan	172.25	171.75	172.25	168.50
Feb	173.00	173.00	173.00	169.50
Mar	171.25	171.75	171.50	169.00
Apr	168.25	169.50	169.25	166.75
May	166.75	168.50	167.25	166.25
Jun	165.50	167.50	166.25	165.25
Aug	170.00		169.00	

Turnover 22452 (14550) lots of 100 tonnes

TEA
There were 16,009 packages for the day, reports the Tea Brokers' Association. Landed assams again met widespread competition and prices for most descriptions advanced by 5 to 15p. Bangladesh teas were readily absorbed at firm rates. Brightest East Africans remained fully firm to dearer. Mediums attracted good support but were often barely steady on last levels. Offshore good general demand at firm to dearer rates. The highest price realised this week was 253p for a Kenya pd. Quotations: quality 210p, nom good medium 170p, medium 150p and low medium 105p.

COCOA – London FOX			£/tonne	
	Close	Previous	High/Low	
Dec	686	695	691	686
Mar	711	721	717	710
May	727	737	732	727
Jul	743	751	747	742
Sep	760	767	763	759
Dec	782	790	784	780
Mar	801	811	805	804
May	816	830	819	817

Turnover: 3326 (2978) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Dec.4 782.16 (789.60) 10 day average for Dec 7 780.87 (781.05)

COFFEE – London FOX			$/tonne	
	Close	Previous	High/Low	
Jan	996	1000	1000	990
Mar	1007	1010	1012	1000
May	996	998	1000	990
Jul	996	1000	999	990
Sep	1001	1005	999	

Turnover:2981 (4894) lots of 5 tonnes
ICO indicator prices (US cents per pound) for Dec.4: Comp. daily 62.25 (62.18) 15 day average 59.51 (59.08)

POTATOES – London FOX			£/tonne	
	Close	Previous	High/Low	
Apr	62.3	63.0	62.6	62.0
May	69.5	68.5	69.0	

Turnover 24 (62) lots of 20 tonnes.

SOYAMEAL – London FOX			£/tonne
	Close	Previous	High/Low
Dec	148.00	147.50	148.00

Turnover 0 (400) lots of 20 tonnes.

FREIGHT – London FOX			$10/index point	
	Close	Previous	High/Low	
Dec	1335	1320	1335	1320
Jan	1289	1289	1290	1288
Apr	1255	1257	1255	
BFI	1342	1337		

Turnover 92 (22)

GRAINS – London FOX			£/tonne	
Wheat	Close	Previous	High/Low	
Jan	131.85	132.00	132.00	131.85
Mar	133.20	133.90	134.00	133.20
May	135.30	136.00	136.20	135.30
Nov	108.00	108.45	108.50	108.00
Jan	111.50	111.75	111.50	
Barley	Close	Previous	High/Low	
Jan	130.70	130.75	131.00	130.70
Mar	132.70	132.60	133.00	132.70
May	134.70	134.25	135.10	134.70

Turnover: Wheat 220 (545). Barley 258 (170). Turnover lots of 100 Tonnes.

PIGS – London FOX	(Cash Settlement) p/kg			
	Close	Previous	High/Low	
Jan	102.5	104.0	103.4	102.5
Feb	102.5	103.3	102.5	
Apr	103.5	103.9	103.0	
May	104.0	104.0	104.0	
Jun	105.0	105.0	104.0	

Turnover:14 (9) lots of 3,250 kg

LONDON METAL EXCHANGE	Close	Previous	High/Low	AM Official	Kerb close	Open interest
(Prices supplied by Amalgamated Metal Trading)						
Aluminium, 99.7% purity ($ per tonne)					Total daily turnover 12,655 lots	
Cash	1182.5-3.5	1178-79		1175.5-6.0		
3 months	1206-6.5	1201-02	1207/1197	1199-9.5	1206-7	183,110 lots
Copper, Grade A (£ per tonne)					Total daily turnover 18820 lots	
Cash	1390-1	1400.5-1.5	1391/1390	1390-0.5		
3 months	1414-4.5	1423.5-24	1417/1411	1415-5.5	1410-11	155,247 lots
Lead (£ per tonne)					Total daily turnover 1,863 lots	
Cash	288.5-9.5	294-95	291/291	291-1.25		
3 months	298-300	305-5.5	304/299	301-1.5	301-2	27,489 lots
Nickel ($ per tonne)					Total daily turnover 5,113 lots	
Cash	5765-75	5825-35	5807/5605	5806-7		
3 months	5845-50	5700-10	5860/5675	5685-90	5860-70	41,183 lots
Tin ($ per tonne)					Total daily turnover 1,430 lots	
Cash	5770-80	5760-90	5779/5779	5778-9		
3 months	5825-30	5835-40	5830/5820	5820-30	5825-35	10,051 lots
Zinc, Special High Grade ($ per tonne)					Total daily turnover 13,380 lots	
Cash	1075-6	1072-73	1069/1067	1067-8		
3 months	1093-4	1088.5-89.5	1096/1088	1088.5-7.0	1095-6	73,909 lots

LME Closing £/$ rate: SPOT: 1.5875 3 months: 1.5750 6 months: 1.5636 9 months: 1.5564

LONDON BULLION MARKET (Prices supplied by N M Rothschild)

Gold (troy oz)	$ price	£ equivalent
Close	335.00-335.30	
Opening	335.50-335.80	
Morning fix	335.50	213.694
Afternoon fix	334.60	211.668
Day's high	335.75-336.05	
Day's low	334.90-335.20	

Loco Ldn Mean Gold Lending Rates (Vs US$)			
1 month	1.81	6 months	2.19
2 months	1.82	12 months	2.51
3 months	1.84		

Silver fix	p/troy oz	US cts equiv
Spot	235.50	374.50
3 months	243.00	379.15
6 months	246.00	382.70
12 months	254.35	390.50

GOLD COINS	$ price	£ equivalent
Krugerrand	334.00-337.00	211.00-213.00
Maple leaf	344.60-346.85	-
New Sovereign	78.50-81.50	50.00-52.00

TRADED OPTIONS				
Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Jan	Apr	Jan	Apr
1150	51	72	6	13
1175	33	55	12	21
1200	20	41	24	32
Copper (Grade A)	Calls		Puts	
2100	111	128	3	9
2150	67	90	7	20
2200	33	58	22	37
Coffee	Jan	Mar	Jan	Mar
950	50	74	4	17
1000	16	43	20	38
1050	3	24	57	67
Cocoa	Mar	May	Mar	May
650	72	94	11	17
675	54	75	18	77
700	39	25	28	35
Brent Crude	Jan	Feb	Jan	Feb
1800	24	47	26	53
1850		23		
1900			104	

New York

GOLD 100 troy oz.; $/troy oz.				
	Close	Previous	High/Low	
Dec	336.1	335.7	336.2	334.5
Jan	336.6	336.2	0	0
Feb	337.0	336.6	337.2	335.3
Apr	338.2	337.6	338.3	336.6
Jun	339.8	339.4	339.9	338.8
Aug	341.4	341.0	341.6	340.0
Oct	343.2	342.9	0	0
Dec	345.0	344.8	344.0	344.0
Feb	347.2	347.1	0	0

PLATINUM 50 troy oz; $/troy oz.				
	Close	Previous	High/Low	
Jan	371.1	366.4	371.8	366.1
Apr	369.4	364.7	371.0	365.0
Jul	368.4	363.9	369.5	364.0
Oct	370.4	365.9	0	0

SILVER 5,000 troy oz; cents/troy oz.				
	Close	Previous	High/Low	
Dec	375.3	374.5	375.5	372.5
Jan	376.1	375.4	0	0
Feb	377.9	377.3	0	0
Mar	378.8	378.3	379.0	376.0
May	381.6	381.1	382.0	381.5
Jul	384.2	383.8	384.5	382.0
Sep	387.0	386.7	0	0
Dec	391.5	391.3	392.0	389.5
Jan	392.7	392.6	0	0
Mar	396.7	396.6	0	0

HIGH GRADE COPPER 25,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Dec	98.75	96.90	99.20	97.50
Jan	99.10	97.30	99.15	98.00
Feb	99.55	97.75	0	0
Mar	99.95	98.15	100.40	98.60
Apr	100.35	98.55	0	0
May	100.75	98.95	101.10	99.60
Jun	101.00	99.20	0	0
Jul	101.35	99.55	101.60	100.60
Aug	101.65	99.85	0	0
Sep	101.95	100.15	102.15	100.90

CRUDE OIL (Light) 42,000 US galls $/barrel				
	Latest	Previous	High/Low	
Jan	19.18	18.94	19.23	18.77
Feb	19.23	19.03	19.26	18.88
Mar	19.31	19.11	19.32	18.96
Apr	19.36	19.18	19.38	19.02
May	19.39	19.22	19.41	19.06
Jun	19.35	19.24	19.40	19.11
Jul	19.37	19.26	19.42	19.15
Aug	19.39	19.28	19.39	19.39
Sep	19.41	19.30	19.43	19.20
Oct	19.41	19.32	19.41	19.41

HEATING OIL 42,000 US galls, cents/US galls				
	Latest	Previous	High/Low	
Jan	55.35	54.22	55.45	53.80
Feb	55.95	54.91	56.00	54.80
Mar	55.60	54.81	55.70	54.50
Apr	54.55	54.03	54.55	53.75
May	53.56	53.23	53.56	53.00
Jun	53.25	53.01	53.30	52.85
Jul	53.50	53.46	53.50	53.10
Aug	54.25	54.06	54.25	53.65
Sep	55.30	55.21	55.30	54.80
Oct	56.45	56.16	56.30	55.90

COCOA 10 tonnes;$/tonnes				
	Close	Previous	High/Low	
Dec	971	975	985	971
Mar	1008	1016	1023	1007
May	1035	1042	1047	1035
Jul	1059	1065	1069	1058
Sep	1083	1088	1086	1085
Dec	1119	1124	1122	1122
Mar	1155	1160	0	0
May	1174	1179	0	0
Jul	1197	1202	0	0
Sep	1221	1226	0	0

COFFEE "C" 37,500lbs; cents/lbs				
	Close	Previous	High/Low	
Dec	75.70	75.55	75.95	75.20
Mar	78.60	76.10	77.00	75.60
May	79.95	79.35	80.15	79.25
Jul	81.30	80.40	81.40	80.70
Sep	82.50	82.25	82.60	82.30
Dec	84.70	84.05	84.40	84.40
Mar	86.60	86.00	0	0

SUGAR WORLD "11" 112,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Mar	8.29	8.37	8.41	8.27
May	8.47	8.55	8.57	8.46
Jul	8.56	8.63	8.65	8.55
Oct	8.57	8.65	8.68	8.57
Mar	8.70	8.75	8.70	8.70
May	8.80	8.85	0	0

COTTON 50,000; cents/lbs				
	Close	Previous	High/Low	
Dec	59.22	59.60	59.30	58.80
Mar	58.53	58.67	58.72	58.27
May	59.52	59.92	59.80	59.30
Jul	60.50	60.60	60.65	60.20
Oct	60.25	60.60	60.60	60.60
Dec	59.80	59.85	59.80	59.60
Mar	60.80	60.95	60.80	60.50
May	61.25	61.33	61.30	61.20

ORANGE JUICE 15,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Jan	102.50	99.70	102.75	100.25
Mar	105.00	102.20	105.10	103.50
May	105.75	103.25	105.75	104.50
Jul	106.20	102.10	105.20	104.60
Sep	104.25	101.75	0	0
Nov	104.00	101.50	104.25	104.25
Jan	103.50	101.00	0	0
Mar	103.50	101.00	0	0
May	103.50	101.00	0	0

INDICES

REUTERS (Base: September 18 1931 = 100)			
Dec.7	Dec.4	mnth ago	yr ago
1669.2	1671.8	1646.4	1612.7

DOW JONES (Base: Dec. 31 1974 = 100)	Dec.4	Dec.3	mnth ago	yr ago
Spot	121.17	120.77	114.24	114.34
Futures	119.70	120.07	118.23	121.25

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel				
	Close	Previous	High/Low	
Jan	559/4	561/0	562/4	558/2
Mar	564/4	566/2	567/0	562/4
May	570/2	570/2	572/4	568/0
Jul	575/6	575/6	578/0	573/2
Aug	578/0	578/2	580/0	575/4
Sep	577/4	577/2	579/0	576/4
Nov	583/4	582/2	584/6	581/0
Jan	590/4	589/4	0	0

SOYABEAN OIL 60,000 lbs; cents/lb				
	Close	Previous	High/Low	
Dec	20.22	20.49	20.45	20.22
Jan	20.32	20.63	20.56	20.30
Mar	20.51	20.83	20.75	20.49
May	20.63	20.94	20.88	20.63
Jul	20.75	21.04	20.96	20.75
Aug	20.75	21.05	20.96	20.75
Sep	20.80	21.00	20.96	20.80
Oct	20.77	20.95	20.95	20.77

SOYABEAN MEAL 100 tons; $/ton				
	Close	Previous	High/Low	
Dec	179.7	179.6	180.8	179.0
Jan	179.9	179.6	180.9	178.9
Mar	180.0	179.9	181.2	179.1
May	180.9	180.8	181.9	180.2
Jul	183.1	183.0	184.0	182.0
Aug	183.8	183.8	184.9	183.2
Sep	184.9	184.8	185.9	184.2
Oct	186.2	186.3	186.6	186.5

MAIZE 5,000 bu min; cents/56lb bushel				
	Close	Previous	High/Low	
Dec	210/4	210/6	212/0	210/0
Mar	218/6	219/6	220/6	218/4
May	226/2	227/2	228/0	226/0
Jul	231/4	232/2	233/0	231/0
Sep	235/6	236/6	237/2	235/6
Dec	241/0	241/6	242/0	241/0
Mar	248/0	248/4	248/2	247/4

WHEAT 5,000 bu min; cents/60lb-bushel				
	Close	Previous	High/Low	
Dec	369/4	372/0	372/6	369/0
Mar	357/2	360/4	361/2	357/0
May	342/0	345/4	346/6	342/0
Jul	321/4	323/4	325/4	321/0
Sep	327/0	329/2	330/0	327/0
Dec	337/6	339/4	340/4	337/0

LIVE CATTLE 40,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Dec	76.725	76.250	76.850	76.225
Feb	74.550	73.700	74.650	73.700
Apr	74.675	73.975	74.850	73.950
Jun	71.400	70.725	71.500	70.650
Aug	69.700	69.125	69.875	69.250
Oct	70.200	69.600	70.225	69.600
Dec	70.375	69.950	70.375	70.050

LIVE HOGS 40,000 lb; cents/lbs				
	Close	Previous	High/Low	
Dec	44.750	44.225	44.850	44.450
Feb	43.575	43.025	43.675	43.300
Apr	41.575	41.000	41.650	41.150
Jun	45.825	45.350	45.850	45.500
Jul	45.500	45.100	45.600	45.250
Aug	44.300	44.075	44.400	44.075
Oct	40.850	40.750	40.900	40.650
Dec	42.850	42.850	42.900	42.600

PORK BELLIES 40,000 lbs; cents/lb				
	Close	Previous	High/Low	
Feb	38.700	38.400	39.800	38.700
Mar	38.775	38.625	39.800	38.900
May	41.000	39.875	41.050	40.200
Jul	41.600	40.475	41.600	40.600
Aug	39.850	39.125	39.750	[illegible]

LONDON STOCK EXCHANGE

Second line stocks take the lead

By Terry Byland, UK Stock Market Editor

SECOND line stocks continued to make good progress in London yesterday but early gains in the blue chip names were reversed towards the close by a rout in the stock index futures sector. Once again, however, traders stressed that selling pressure was modest, and the FT-SE Mid 250 Index strongly outperformed the FT-SE 100.

The first half of the trading session went well, with the market leaders moving ahead, encouraged first by further firmness in sterling and then by favourable October statistics on UK consumer credit. A firm pound is regarded as underpinning hopes for a further cut in base rates, probably just after Christmas, and also suggests overseas investment in UK securities.

The £76m increase in net credit to consumers in October provided support for belief that some areas of the domestic economy have begun to show signs of recovery. However, the stock market, having already discounted some pick-up in economic activity since Britain's departure from the European monetary system, remained inclined towards caution.

Nevertheless, the Footsie gained 16.6 to 2,776 before topping out smartly at mid-session. Share prices then hung fire for a while, with turnover fading away. The crunch came when the premium on the December FT-SE Index futures contract suddenly contracted. Share prices reacted sharply and the market fell by 24 points to show a net loss of 7.6 on the Footsie.

A modest rally at the close, also sparked from the stock index futures market, left the FT-SE Index at 2,754.5 for a net loss of 4.9. But FT-SE Mid 250 Index, in contrast to the Footsie which is made up of 100 leading stocks, had a firm session throughout, closing with a gain of 13.1 at 2,674.3.

Trading volume was reduced, bringing the day's Seaq-reported total down to 426.6m shares from Friday's 676.1m. But, as indicated by the FT-SE Mid 250 Index performance, turnover in the second line issues well outstripped that in the Seaq listed stocks.

Moreover, the value of retail, or customer, business rose on Friday to £1.53bn, one of the best daily totals of recent weeks and extending the prolonged run of relatively profitable trading for the London-based securities industry.

Little heed was paid to an opening gain of 10 Dow points in New York, although there were reports of selective buying of London equities from across the Atlantic.

The market was held back by selling of a handful of blue chip issues, notably ICI which attracted adverse review from the brokerage community. Retail and stores issues lacked supporters, in spite of the favourable consumer credit news. Some leisure and hotel issues, however, found encouragement from the terms of the long-expected sale by Forte of its Gardner Merchant catering division.

Market strategists remained optimistic, taking the view that the market's surge towards new territory has been well underpinned by last week's signs of recovery in the US economy and by the boost to the UK's competitiveness provided by the prolonged fall in sterling. However, some believe that the market could react should the next base rate cut be long delayed, – even if German rates are shaved this week.

TRADING VOLUME IN MAJOR STOCKS

Stock	Volume 000's	Closing Price	Day's change
[illegible]	[illegible]	[illegible]	[illegible]

Based on the trading volume for a selection of Alpha securities dealt through the SEAQ system yesterday until 4.30pm. Trades of one million or more are rounded down.

Account Dealing Dates

*First Dealings:		
Nov 30	Dec 14	Jan 4
Option Declarations:		
Dec 10	Dec 30	Jan 14
Last Dealings:		
Dec 11	Dec 31	Jan 15
Account Day:		
Dec 21	Jan 11	Jan 25

*New time dealings may take place from 8.30am two business days earlier.

Forte deal satisfies

THE long-awaited and well-signalled sale by Forte of Gardner Merchant, its catering subsidiary, nevertheless managed to take the market by surprise as some investors took fright at the headline figure and sold the shares. However, an afternoon presentation by the hotel group helped soothe some of the suspicions that Gardner had been sold too cheaply and the shares regained some of their losses before the close of trading.

The complex deal involves Forte investing £60m in the new venture, with the remaining £342m price tag being paid by a combination of institutions and the Gardner management. At the same time, Forte announced it was buying a chain of French roadside restaurants and sealing a similar deal in Italy, in keeping with its declared strategy of expanding its Continental food operations.

Mr Ron Littleboy at Nomura said that the deal would ease dividend worries and greatly improve Forte's debt position. "This is a very good deal for the group," he said. Others were less impressed. One long-term bear of the stock suggested that the Gardner sale changed very little and that the problems of "flat trading and unimaginative management" meant downward pressure on the shares would remain. Having dropped 7 on the news of the disposal, they recovered to close 2½ lighter at 167½p. Turnover was a healthy 4.2m.

Amstrad surprises

Many market operators were surprised at the performance of Amstrad shares after suggestions in the press that the 30p a share bid for the minority 66 per cent of the shares owned by Mr Alan Sugar would probably fail.

Amstrad stock dropped to 22½p at the opening as speculators sold their shares, but later stabilised and closed a net 4 off at 24p. Turnover was a rather disappointing 11.3m.

One electronics specialist said he was very surprised at the shares' performance after news that then Sugar bid would probably fail: "They've held up quite nicely, I thought they would fall to 10p." Another analyst said he thought, "there was very little downside from here; the stock was trading in the low 20p's before the bid was announced."

S&N cheer

A sigh of relief greeted interim figures from Scottish & Newcastle Breweries, the shares jumping 12 to 413p, as the effect of the recession appeared to be not as bad as had been signalled last week in results from two of S&N's competitors. Pre-tax profits were £108.4m against £115.7m with a slightly improved dividend also lending the shares support. However, analysts foresee a dull time for the shares in the short-term with a flat beer market and dull leisure business offering little in the way of stimulus for earnings growth.

While remaining a holder of the shares, Mr Graeme Eadie at County NatWest foresees some recovery potential. "Being concentrated in the north and Scotland, S&N is likely to benefit more than the likes of Bass and Whitbread as we come out of recession."

The two classes of BT shares drifted easier, with the fully-paid closing off 7¼ at 403½p and the partly-paid 6 down at 301p with good volumes as the market awaited news of the appointment of the adviser to the government for the third issue of BT shares.

There were hints of some determined US selling of BT stock as some investors referred to their charts of the run up to BT II, where the shares fell around 15 per cent relative to the market ahead of the listing. The Ofgas statement of "rate of return" for British Gas was also cited as partly responsible for the slippage in BT shares.

Merchant bank SG Warburg sprinted 17 higher to 516p amid strong hints that the group will again advise the Government on the sale of the third tranche of BT shares.

Vodafone edged up 5 to 410p on 1.1m traded with one of the leading US brokerages, Lehman Brothers, said to have been a strong supporter of the shares.

Electronics group Tunstall jumped 10 to 309p after the 20 per cent leap in full-year profits and the 12.1 per cent increase in the dividend total.

Of the day's two newcomers to the market, Tadpole Technology, placed at 65p a share, opened at 73p and quickly raced up to 86p before settling at 85p. Hunters Armley, the printing group whose stock was placed in the market at 90p a share, moved ahead to touch 103p during early trading, but later eased to close at 99p.

British Gas was the weakest performer in an oil and gas sector short of activity but full of stories. Gas shares retreated to 272½p before stabilising and closing a net 4 off at 274p, on turnover of 7.6m, after Ofgas, the industry regulator, issued a report of rates of return on Gas's pipeline business.

The report was in favour of a reduction in Gas's real return from this business, from the 6.7 per cent level thought to be needed by Gas to the level of 2½ to 5 per cent recommend by Ofgas. One of the stockmarket's gas specialists said he thought it likely that the authorities will find in favour of the Ofgas view.

BP eased a fraction to 238p after the company revealed a 600m barrel increase in oil reserves during its presentation to London oil analysts. US investors now account for some21.8m per cent of BP's shares.

Calor held at 218p but one sector specialist said there was "Real unease among analysts about the unexpected and unexplained resignation of the group's highly respected finance director, Mr A.M.Pate. "It could just be that SHV is flexing its muscles but there are concerns that there has been a disagreement over accounting policies," said the analyst. SHV last week increased its stake in Calor to just below 49 per cent.

Impressive full year results from Airtours left analysts searching for superlatives as the tour operating group again exceeded market expectations. The company refused to comment on whether it still harboured interests in rival Owners Abroad, and this speculation was said to have held the shares – which have also run ahead prior to the results – steady at 380p. Owners edged forward a penny to 77p.

Talk that Kingfisher was eyeing the German interests of US store giant Woolworth found little support and the shares drifted back 3 to 577p in thin trading. Hints from Great Universal Stores that its catalogue business was winning market share continued to underpin the shares and they rose 14 to 1667p. A shortage of stock was said to have been behind Kwik Save's jump of 24 to 775p.

Speculation that British Aerospace would soon win a lucrative order for the Hawk trainer aircraft from Saudi Arabia under the Al Yamamah defence project, helped the shares buck the market trend. They gained 7 to 141p, with sentiment further boosted by reports that a collapse in the European Fighter Aircraft (EFA) project, on which BAe is the leading UK contractor, may be averted. Turnover was 4.2m.

A squeeze sent Smiths Industries climbing 8 to 348p. The dividend increase at Westland as it reported an 11 per cent improvement in full year figures, just ahead of expectations, cheered the market and the shares firmed 3 to 116p. Whessoe were wanted ahead of results on Thursday. The shares gained 17 to 234p. Also wanted were Siebe, 8 better at 387p, ahead of today's interim figures.

Among motor stocks, the improvement in car sales helped Lex Service gain 10 to 263p.

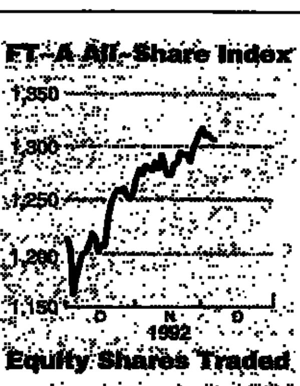
Shares in ICI retreated following a downgrade from the company's broker. Blaming weak October trading, Hoare Govett cut its forecast for the current year by £40m to £540m, lopping a similar amount from 1994 to £660m. The shares fell 11 to 1025p.

In transport stocks, P&O bounced 2 to 482p, in trade of 1.8m. Strong demand was seen for NFC. Turnover rose to 8.1m and the shares having touched 284p, closed 4 harder at 282p.

MARKET REPORTERS:
Joel Kibazo,
Christopher Price,
Steve Thompson.

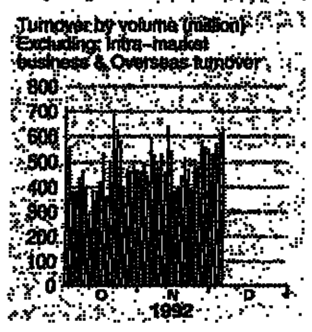
■ Other market statistics, Page 21

FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



NEW HIGHS AND LOWS FOR 1992

NEW HIGHS (95). [illegible]

NEW LOWS (40). [illegible]

FINANCIAL TIMES EQUITY INDICES

	Dec 7	Dec 4	Dec 3	Dec 2	Dec 1	Year ago	High	Low
Ordinary share	2084.1	2082.4	2091.7	2097.8	2105.5	1830.0	2149.7	1670.0
Ord. div. yield	4.45	4.45	4.42	4.43	4.41	5.03	5.34	4.24
Earning yld % full	6.11	6.10	6.06	6.07	6.03	7.53		
P/E ratio net	20.95	21.01	21.12	21.06	21.21	16.58	21.21	15.79
P/E ratio nil	18.29	18.34	18.44	18.40	18.52	15.05		
Gold Mines	70.9	71.5	71.4	70.1	71.1	168.9	160.6	63.0

*for 1992 Ordinary share index since compilation: high 2149.7 [illegible]; low 49.4 26/6/40. Gold Mines index since compilation: high 734.7 15/2/83 - low 43.5 26/10/71. Basis Ordinary share 1/7/35; Gold Mines 12/9/55.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2084.5	2092.5	2092.5	2092.2	2089.5	2096.7	2096.1	2088.2	2081.1	2099.7	2080.0

Volume	Dec 7	Dec 4	Dec 3	Dec 2	Dec 1	Year ago
SEAQ Bargains	25,998	25,695	25,783	28,749	28,853	25,802
Equity Turnover(£m)†	-	1528.0	1497.9	1264.9	1207.1	814.72
Equity Bargains†	-	30,486	31,737	34,072	34,891	26,769
Shares traded (ml)†	-	530.6	613.3	579.9	534.2	472.7

† Excluding intra-market business and overseas turnover.

London report and latest Share Index: Tel. 0891 123001. Calls charged at 36p/minute cheap rate, 48p at all other times.

FUTURES AND OPTIONS TRADING

A SQUEEZE in stock index futures led to a strong advance in the first half of the session before sizeable selling brought a decline in the afternoon, writes Joel Kibazo.

Trading in December opened firmly at 2,779, some 11 points above Friday's close and strong demand moved it quickly forward and it pulled the underlying cash market ahead. By noon, the December contract was trading at 2,792, which proved to be the day's high, with sentiment encouraged by favourable data on UK consumer credit for the month of October.

It was however the weakness in the short sterling contract that led to a turnaround in the fortunes of the contract and it fell heavily, not only causing a decline in the premium, but led to falls in the underlying equities though some bargain hunting at the close was reported by dealers.

December finished at 2,757, around 11 points below Friday's close and around its fair value premium to cash of about 4. Turnover was 7,571 contracts.

In traded options, activity in the index options accounted for the bulk of the day's total turnover of 23,954 lots. The FT-SE 100 option traded 12,451 contracts, while the Euro FT-SE option saw business of 3,947 lots. In stock options Lonrho was the busiest with a total of 755 contracts. Asda traded 723 lots, followed by Shell which traded 633 contracts.

FT-SE Actuaries Share Indices — THE UK SERIES

FT-SE 100	FT-SE MID 250	FT-A ALL-SHARE
2754.5 -4.9	2674.3 +13.1	1308.27 -0.36

	Dec 7	Dec 4	Dec 3	Dec 2	Dec 1	Year ago	1992 High	1992 Low	Since compilation High	Since compilation Low
FT-SE 100	2754.5	2759.4	2771.0	2764.1	2792.0	2388.7	2792.0	2281.0	2792.0 1/12/92	986.9 23/7/84
FT-SE Mid 250	2674.3	2661.2	2654.9	2650.8	2644.5	2327.0	2825.0	2157.8	2825.0 20/5/92	1379.4 21/1/86
FT-SE-A 350	1334.1	1334.6	1338.4	1335.4	1345.5	1165.8	1345.5	1103.1	1345.5 1/12/92	664.5 14/1/86

Hourly	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FT-SE 100	2759.1	2768.8	2768.5	2766.5	2775.5	2773.8	2772.9	2765.9	2753.3	2776.0	2751.8
FT-SE Mid 250	2662.7	2666.9	2669.1	2669.6	2675.5	2675.9	2676.6	2675.3	2673.5	2676.6	2662.7
FT-SE-A 350	1334.7	1338.8	1338.9	1338.2	1342.3	1341.7	1341.4	1338.6	1333.5	1342.5	1332.9

Gross dividend yield (ACT at 25%) FT-SE 100: 4.44

FT-Actuaries All-Share

EQUITY GROUPS & SUB-SECTIONS (Figures in parentheses show number of stocks per section)	Mon Dec 7 1992 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at (25%))	Est. P/E Ratio (Net)	xd adj. 1992 to date	Fri Dec 4 Index No.	Thu Dec 3 Index No.	Wed Dec 2 Index No.	Year ago (approx) Index No.
1 CAPITAL GOODS (175)	804.64	+0.5	7.04	5.33	18.49	30.03	801.02	803.72	799.88	732.22
2 Building Materials (23)	790.56	+1.3	6.65	6.83	21.18	37.11	780.51	781.39	784.79	869.51
3 Contracting, Construction (26)	652.12	+0.6	4.21	7.60	64.75	37.49	648.09	652.41	656.07	914.08
4 Electricals (9)	2239.85	....	7.50	6.75	17.43	108.10	2239.52	2236.46	2243.97	2356.61
5 Electronics (28)	2181.21	-0.3	7.05	3.95	18.00	51.29	2187.72	2194.55	2196.23	1632.72
6 Engineering-Aerospace (6)	269.17	+0.9	13.15	8.73	9.48	15.92	266.85	271.10	261.61	326.65
7 Engineering-General (43)	470.85	+0.8	8.45	4.98	15.10	16.90	466.89	470.66	464.29	452.13
8 Metals and Metal Forming (7)	301.16	+0.7	3.65	4.28	25.82	8.52	299.20	299.50	297.24	301.81
9 Motors (15)	352.48	+1.5	5.77	4.37	25.28	17.59	347.28	349.92	343.48	278.58
10 Other Industrials (18)	1869.30	....	6.68	4.49	18.09	61.23	1868.39	1874.47	1862.52	1473.60
21 CONSUMER GROUP (192)	1719.98	+0.1	6.79	3.40	18.32	41.31	1718.06	1715.28	1711.27	1545.03
22 Brewers and Distillers (25)	2012.23	+0.4	8.26	3.76	14.67	43.06	2004.64	2027.70	2041.06	1888.10
25 Food Manufacturing (19)	1282.64	-0.2	8.20	4.17	15.23	39.42	1285.04	1291.91	1294.68	1184.90
26 Food Retailing (18)	3187.30	+0.6	8.08	2.95	16.10	70.26	3166.96	3129.73	3107.77	2366.83
27 Health and Household (26)	4362.58	-0.5	5.11	2.60	22.78	87.89	4383.77	4312.41	4286.90	4140.27
29 Hotels and Leisure (18)	1208.74	+0.6	6.91	5.69	19.00	46.03	1201.87	1204.38	1207.21	1216.49
30 Media (26)	1729.25	+0.6	5.79	3.05	21.53	38.77	1719.76	1727.78	1713.98	1419.26
31 Packaging, Paper & Printing (17)	770.73	+1.1	6.78	4.22	18.30	24.33	762.26	763.30	755.09	721.40
34 Stores (33)	1132.67	....	6.43	3.20	20.58	26.44	1132.57	1137.74	1132.87	972.71
35 Textiles (10)	701.81	+0.4	6.77	4.34	18.61	23.43	699.33	706.47	710.98	594.52
40 OTHER GROUPS (115)	1396.72	-0.3	8.93	5.03	13.90	43.52	1400.41	1406.75	1400.03	1156.84
41 Business Services (17)	1410.04	-0.9	6.29	3.61	19.47	34.10	1422.49	1435.78	1432.48	1377.00
42 Chemicals (22)	1376.16	-0.4	6.63	5.33	19.07	54.36	1381.85	1386.02	1369.34	1353.57
43 Conglomerates (10)	1350.00	.. ..	9.68	9.25	12.80	40.93	1349.98	1385.69	1388.93	1270.17
44 Transport (13)	2648.68	+0.2	8.56	4.48	14.01	88.31	2642.94	2669.44	2641.16	2188.23
45 Electricity (16)	1520.15	+0.2	14.02	4.93	9.18	55.01	1516.97	1498.78	1496.51	1146.62
46 Telephone Networks(4)	1652.33	-1.2	8.07	4.14	16.11	48.48	1673.01	1682.42	1676.25	1367.85
47 Water(11)	3192.21	+0.5	14.26	5.53	7.75	95.06	3175.54	3161.83	3145.36	2170.90
48 Miscellaneous (22)	2430.30	+0.5	5.85	4.17	21.13	60.58	2418.10	2423.48	2409.28	1734.78
49 INDUSTRIAL GROUP (482)	1387.38	....	7.54	4.27	16.60	39.71	1386.77	1388.51	1383.57	1216.51
51 Oil & Gas (18)	2133.54	-0.3	6.26	6.08	21.01	103.27	2139.67	2152.41	2164.62	2161.56
59 500 SHARE INDEX (500)	1458.60	.....	7.41	4.45	16.96	44.69	1458.44	1460.97	1457.14	1299.63
61 FINANCIAL GROUP (82)	834.34	-0.3	-	5.26	-	32.17	836.99	844.02	844.25	700.38
62 Banks (9)	1131.96	-0.9	5.43	4.92	27.59	40.52	1141.78	1157.54	1152.06	804.33
65 Insurance (Life) (6)	1723.54	+0.5	-	5.27	-	68.18	1715.78	1723.92	1724.37	1384.01
66 Insurance (Composite) (7)	614.36	+0.2	-	4.90	-	22.58	613.30	615.92	628.67	512.80
67 Insurance (Brokers) (10)	707.09	-0.3	8.79	7.55	15.27	47.71	709.49	707.22	703.12	985.34
68 Merchant Banks (6)	474.10	+1.9	-	4.82	-	16.75	465.47	465.28	464.64	448.84
69 Property (30)	610.77	-0.1	8.89	6.89	14.75	28.61	611.21	609.86	611.29	823.66
70 Other Financial (14)	272.09	+0.6	7.37	6.16	17.87	10.81	270.42	270.32	269.89	229.59
71 Investment Trusts (69)	1272.02	+0.2	-	3.41	-	31.02	1269.20	1273.65	1274.48	1134.08
99 ALL-SHARE INDEX (651)	1308.27	. .. .	-	4.53	-	41.18	1308.63	1312.13	1309.32	1156.63

FT-SE Actuaries 350 Industry Baskets

Hourly	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous close	change
Constrcn	1280.2	1283.4	1283.4	1285.9	1291.9	1292.0	1291.2	1290.4	1288.1	1288.7	1280.8	+ 7.9
Health&H	1328.3	1328.9	1328.0	1325.7	1327.8	1326.4	1326.1	1325.5	1320.9	1320.1	1326.3	-6.2
Water	1313.8	1315.2	1316.5	1322.9	1323.2	1323.6	1323.4	1321.5	1317.9	1320.0	1313.4	+ 6.6
Banks	1380.2	1383.1	1381.3	1381.0	1385.1	1385.3	1384.8	1380.4	1372.4	1374.9	1387.0	-12.1

Additional information on the FT-SE Actuaries Share Indices is published in Saturday issues. Lists of constituents are available from The Financial Times Limited, One Southwark Bridge, London SE1 9HL. The FT-SE Actuaries Share Indices Service, which covers a range of electronic and paper-based products relating to these indices, is available from FINSTAT at the same address. The FT-SE 100, the FT-SE Mid 250 and the FT-SE Actuaries 350 Indices are compiled by the London Stock Exchange and the FT-Actuaries All-Share Index is compiled by The Financial Times Limited, both in conjunction with the Institute of Actuaries and the Faculty of Actuaries under a standard set of ground rules.

LONDON SHARE SERVICE

BRITISH FUNDS

Notes	Price £	+ or -	1992 high	1992 low	Yield Int.	Yield Red.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BRITISH FUNDS - Cont.

Notes	Price £	+ or -	1992 high	1992 low	Yield Int.	Yield Red.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BRITISH FUNDS - Cont.

Notes	Price £	+ or -	1992 high	1992 low	Yield (1)	Yield (2)
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

OTHER FIXED INTEREST

Notes	Price £	+ or -	1992 high	1992 low	Yield Int.	Yield Red.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Continued on next page

AMERICANS

CANADIANS

BANKS

BREWERS & DISTILLERS

BUILDING MATERIALS

BUILDING MATERIALS - Cont.

BUSINESS SERVICES

CHEMICALS

CONGLOMERATES

CONTRACTING & CONSTRUCTION

CONTRACTING & CONSTRUCTION - Cont.

ELECTRICALS

ELECTRICITY

ELECTRONICS

ENGINEERING-AEROSPACE

ENGINEERING-GENERAL

ENGINEERING-GENERAL - Cont.

FOOD MANUFACTURING

FOOD RETAILING

HEALTH & HOUSEHOLD

HOTELS & LEISURE

HOTELS & LEISURE - Cont.

INSURANCE BROKERS

INSURANCE COMPOSITE

INSURANCE LIFE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

WATER

	Notes	Price	+ or -	1992 high	low	Mkt Cap£m	Yld Gr's	P/E
Anglian	†□	488	+2	502	308½	1,388	5.6	8.4
Bristol Water		715	—	728	485	42.4	5.2	10.3
Cheam A		180	+1	189	170	8.65	5.6	8.3
B N/V		163	—	178	135	3.91	6.1	7.5
East Surrey	†	251	—	251	200	31.5	5.2	6.3
Mid Kent		243xd	−2	255	163	41.4	5.2	7.7
North West	†□	473	+1	513	323	1,688	5.6	8.2
Northumbrian	†□	546	+6	584	336	305.8	5.1	5.6
Severn Trent	†□	452	+2½	479	298	1,604	5.8	6.5
Southern	□	451	+2	485	301	740.1	5.8	7.5
South Staffs	†	1190xd	—	1300	670	83.9	4.5	7.7
South West	‡†□	481	+2	524	305	807.9	6.0	7.3
Thames	†□	485	+2	518	324	1,676	5.3	9.2
Welsh	†□	523	+2	546	337	764.7	5.5	5.9
Wessex	□	598	+5	603	368	595.2	4.6	8.3
Yorkshire	†□	513	+6	547	338	1,816	5.1	8.2

SOUTH AFRICANS

	Notes	Price	+ or -	1992 high	low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind		27¼	+¼	£14⅝	£7½	448.5	10.1	4.9
Barlow Rand		£5½xd	+⅛	£10⅛	£5½	1,189	8.4	Φ
Gold Fids Prop	s	54	—	118	49	5.62	20.3	7.2
New Klein Prop	h	82	—	82	52½	3.30	8.3	7.0
OK Bazaars	‡	78	—	183	74	76.3	‡	–
SASOL	♥	220	+7	345	190	1,245	7.8	Φ
SA Brews		765xd	+27	1020	655	4,061	3.7	11.6
Tiger Oats		825	+12	737	512	937.8	2.8	Φ
Tongaat-Hulett		212	−1	400	187	178.3	7.7	5.0

PLANTATIONS

	Notes	Price	+ or -	1992 high	low	Mkt Cap£m	Yld Gr's
Rubbers, Palm Oil							
Anglo-East	Z	38	−1	*39	33	10.8	1.3
Bertam		78	—	84	60	15.6	4.5
Cons Plants M$		48	—	51	30	324.5	7.9
Golden Hope M$		44	—	*47	29½	492.0	5.4
Highlands M$		27	—	31	20	81.6	10.8
Kuala Kepong M$		74	—	79	54	351.8	5.3
Rowe Evans		41	—	43	32	14.8	3.3
Teas							
Moran		133p	—	136	130	5.83	1.0
Williamson		888	—	1000	575	19.2	4.5

MINES

	Notes	Price	+ or -	1992 high	low	Mkt Cap£m	Yld Gr's
Central Rand							
Durban Deep		134	−2	375	122	3.12	–
East Rand Prp		79	−9	198	79	13.1	–
Randfont'n Est		174	−2	334	136	108.4	11.2
West Rand	‡	50	−2	185	42	2.13	‡
Eastern Rand							
AFMIN	♥Z	6½	—	5	0½	8.12	22.0
Bracken		21	—	25	11	2.94	–
East Daggs	‡	88½	−1½	164	88	8.97	‡
Eastern Trans	‡	22	—	85	17	19.0	‡
ERGO		68	+6	121	39	28.9	19.6
Grootvlei	‡	57	+3	89	44	6.52	‡
Kinross		364	−4	795	292	85.5	15.6
Leslie		27	−1	69	21¾	4.32	17.6
Randex		7	—	18	1	0.63	–
Winkelhaak		384	+4	638	255	44.3	6.2
Far West Rand							
Blyvoor		44	−1	118	39	10.6	15.6
Buffels		304	−8	585	208	33.4	13.7
Deelkraal		58	+3	125	48	55.7	12.2
Doornfontein		13½	+½	46	8¾	5.40	–
Driefontein		470	−6	759	398	958.8	7.9
Elandsrand	†	150	−2	470	120	145.5	6.2
Hartebeest	‡	184	−11	281½	104	118.5	‡
Kloof		399	+3	624	293	585.8	5.0
Southvaal	†	£5¼	−⅛	£12⅞	£4⅞	133.3	11.2
Stilfontein		18	—	69	18	2.35	–
Vaal Reefs	†	£10¼	−⅛	£40	£15	385.5	12.3
Western Areas		39	—	89½	28¼	14.1	–
Western Deep	‡	27	−⅛	£22¾	£5¾	184.9	‡
Zandpan	‡	29	—	45	20	28.0	‡
O.F.S.							
Beatrix		99	—	323	89	83.3	18.5
FS Cons		324	−4	535	272	306.6	16.8
Free State Dev		10	—	33	7	2.22	–
Harmony	‡	92	−1	368	88½	24.7	‡
Joel (H.J.)		22	−2	78	22	21.6	–
Loraine		15	—	71	12	2.48	–
St Helena	†	245	+5	410	183	23.8	17.9
Unisel		63	+2	183	43	17.6	5.4

GUIDE TO LONDON SHARE SERVICE

Company classifications are based on those used for the FT-Actuaries Indices and FT-Actuaries World Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ).
- ● "Tap Stock"
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- Φ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ Free annual/interim report available, see details below.
- ✣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially UK listed; dealings permitted under Rule 535(2)
- ‡ Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
c Cents.
f Flat yield.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
v Not subject to ACT.
z Dividend yield includes a special payment
E Auction basis
F Yield based on prospectus or other official estimates for 1994-95.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1993.
K Yield based on prospectus or other official estimates for 1992-93
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1993-94.
N Yield based on prospectus or other official estimates for 1992.
P Figures based on prospectus or other official estimates for 1994.
R Forecast annualised yield, p/e based on prospectus or other official estimates.
T Figures assumed.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xf ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1200 a year for each security shown, subject to the Editor's discretion

FT Annual Reports Service

You can obtain the current annual/interim report of any company annotated with ♣. Ring +44 81-643 7181 (open 24 hours including weekends) or fax +44 81-770 0544, quoting the code FT2198. Reports will be sent the next working day, subject to availability. Please remember to state the weekly changing code above.

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FT MANAGED FUNDS SERVICE

• Current Unit Trust prices are available from FT Cityline. For further details call (071) 925 2128.

AUTHORISED UNIT TRUSTS

AIB Unit Trust Managers Limited (1000)F
51 Belmont Rd, Uxbridge, Middx UB8 1RZ 0895 259783

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
AIB Grofund American	5	149.9	151.4	159.3	+2.00	0.00
AIB Grofund Equity	5	198.8	199.5	211.1	+1.30	0.20
AIB Grofund Euro	5	139.1	141.0	148.4	+0.20	1.00
AIB Grofund Ext. Balanced	5	97.87	99.50	102.98	+1.88	0.00
AIB Grofund Gilt	3	74.54	74.57	76.87	-0.15	5.35
AIB Grofund Japan	5	119.7	121.1	127.4	+4.40	0.00

AXA Equity & Law Unit Tst Mngrs (1200)H
Equity & Law Hse, Corporation St, Coventry 0203 553231

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
General Inc	5	392.5	394.4	419.6	+2.3	3.02
General Acc	5	427.5	429.5	457.0	+2.5	3.02
UK Growth Acc	6	288.2	292.6	311.3	+1.6	3.40
UK Growth Inc	6	206.6	209.7	223.1	+1.2	3.40
Higher Inc Acc	6	492.4	500.5	532.5	+2.4	4.81
Higher Inc Inc	6	303.8	308.6	328.4	+1.4	4.81
Gilt&F xd Int Acc	5½	165.9	165.9	175.2	-0.2	6.85
Gilt&F xd Int Inc	5½	89.41	89.41	94.44	-0.11	6.85
Nth America	6	245.8	250.4	266.4	+2.3	0.00
Far East	6	220.8	220.8	234.9	-1.4	0.26
Europe	6	194.4	194.4	206.8	+0.9	0.68
Brit Excell	6	59.34	59.34	63.13	+0.24	3.45
Brit Fndmtls Acc	6	74.71	74.71	79.48	+0.33	5.61
Brit Fndmtls Inc	6	58.64	58.64	62.99	+0.26	5.61
Global Opps	6	60.35	60.93	64.82	+0.31	0.00

Abbey Unit Tst Mngrs (1000)H
80 Holdenhurst Rd, Bournemouth 0345 717373

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Gilts & Fixed Int	6	126.0	126.0	133.6	-0.1	7.11
High Inc Equity	6	130.2	133.1	141.5	+0.6	6.01

[illegible]

Britannia Life Unit Managers Ltd (1200)F
190 West George St, Glasgow G2 2PA 041-332 3132

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Balanced Growth	6	83.72	84.84	90.74	+0.56	2.40
Do (Accum)	6	91.41	92.63	99.07	+0.61	2.40
Smaller Cos	6	61.24	61.24	65.50	+0.08	2.61
Do (Accum)	6	66.22	66.22	70.82	+0.09	2.61
Higher Yield	6	33.57	33.97	36.33	+0.21	5.57
Do (Accum)	6	45.38	45.92	49.11	+0.28	5.57
American Gth Inc	6	48.63	48.88	52.27	+0.48	0.16
Do (Accum)	6	49.55	49.80	53.27	+0.49	0.16
European Growth	6	85.17	85.17	91.09	+0.38	2.09
Do (Accum)	6	85.96	85.96	91.94	+0.38	2.09
Global Bond Inc	6	26.46	26.70	28.33	+0.15	5.11
Do (Accum)	6	32.52	32.81	34.81	+0.19	5.11
Managed P'folio Inc	6	29.33	29.41	31.46	+0.19	0.00
(Do Accum)	6	29.42	29.50	31.55	+0.20	0.00
Pacific Growth Accum	6	75.07	75.87	81.15	-0.21	1.03
Intl Spec Opps Accum	6	69.54	70.47	75.37	+0.75	1.83

Brown Shipley & Co Ltd (1000)F
9-17 Perrymount Rd Haywards Hth 0444 412262

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Mngd P'folio Inc	6	78.99	78.99	84.12	-0.03	2.47
Mngd P'folio Acc	6	147.9	147.9	157.5	..	–
UK General	6	127.5	127.5	135.8	+0.3	3.73
Conv & General	6	16.29	16.29	17.35	-0.25	8.89
European Inc	6	19.99	19.99	21.36	-0.04	0.52
European Acc	6	20.65	20.65	22.27	-0.01	–
Financial	6	94.40	94.40	100.5	-0.20	4.42
Foundation	6	60.91	62.70	66.78	....	4.20
German	6	36.71	36.71	39.38	+0.23	0.10
Growth Inc (5-1)	5	26.33	26.40	28.12	+0.09	3.29
Growth Acc (5-1)	5	30.66	30.74	32.74	+0.10	–
High Income	6	63.26	63.49	68.57	+0.15	6.85
Income	6	104.2	105.2	111.6	+0.30	5.11
Intl Income	6	81.31	81.31	86.60	+0.11	5.57
Intl Growth	6	29.52	29.52	31.44	+0.16	0.25
Monthly Income	6	57.47	59.56	63.43	+0.41	5.31
North American	6	96.07	96.07	102.3	+1.90	0.21
Orient	6	86.51	86.51	93.05	-0.35	–
Recovery	6	27.28	27.38	29.57	+0.06	3.99
Smaller Cos Acc	6	195.8	195.8	208.5	-0.10	–
Smaller Cos Inc	6	114.6	114.6	122.0	-0.28	1.89

[illegible]

MGM Unit Managers Ltd (1600)F
MGM House, Heene Rd, Worthing
Dealing: 0277 261010 Enq: 0903 204631

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
High Income	5	234.0	237.8	252.9	+0.2	5.66
(Accum Units)	5	398.6	405.1	430.9	+0.3	5.66
UK Growth	5	302.5	305.2	324.6	+0.8	3.22
(Accum Units)	5	376.6	379.9	404.1	+0.9	3.22
Int Equity Gth	5	53.41	53.58	56.99	+0.31	1.15
Intl Bond	5	62.29	62.29	65.45	+0.26	6.16
Special Sits Gwth	5	15.27	15.74	16.74	+0.02	2.92
North American Gwth	5	84.90	85.26	90.70	+1.09	0.92
European Growth	6	53.87	54.27	57.73	+0.24	1.06

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Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♣) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point, a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH
Tel: 071 – 379 – 0444.

[illegible]

FT MANAGED FUNDS SERVICE

● Current Unit Trust prices are available from FT Cityline. For further details call (071) 925 2128.

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Sharp (Albert E.) & Co (1000)F						
Admir 5 Rayleigh Rd Hutton, Brentwood Essex						
Enquiries: 0277 227300 Dealing: 0277 261010						
Intl Bond & Com	5	115.70	116.00	122.10	+0.20	5.67
Pooled Pension $	7	140.7	145.3	150.4	.....	–
Smaller Cos	5	51.23	53.00	55.79	+0.24	2.69
UK General	5	111.80	113.50	119.50	+0.20	3.51
Sheppards Unit Trust Mngmt Ltd (1200)F						
1 White Hart Yard, London Bridge SE1 071 407 5966						
Income	5	362.87	362.87	384.64	+2.09	5.36
Global Inc	5	50.91	50.91	53.96	+0.04	4.50
Brit Leaders	5	307.17	307.17	325.60	+1.91	3.14
Intl Leaders	5	163.26	163.26	173.06	+1.00	1.89
PAs Har Bal Cum Acc	3½	48.21	49.30	51.22	-0.07	3.32
PAn Har Bal Cum Inc	3½	48.21	49.30	51.22	-0.07	3.32
Singer & Friedlander UT Mgmt Ltd (1000)F						
PO Box 224, Beckenham BR3 4TF 081-663 3003						
European Trust	6	45.67	45.76	48.68	-0.02	1.62
Far Eastern Tst	6	49.92	50.53	53.76	+0.01	0.92
Smaller Cos	5	113.6	118.2	125.8	+0.8	2.93
Smith & Williamson Unit Tst Mgrs (1600)F						
1 Riding House St, London W1A 3AS 071-637 5377						
S & W American $	5	256.9	257.4xd	272.3	-2.3	0.92
S & W Capital	5	105.9	105.9	113.4	+0.1	1.93
S & W Cash $	0	101.40	101.40	101.40	+0.02	6.84
S & W European	5	102.6	102.8	108.7	-0.7	1.23
S & W Far Eastern	5	104.3	105.2	111.3	+1.0	0.22
S & W Growth	5	113.2	114.6xd	121.3	-0.4	1.46
S & W Income	5	99.35	100.7	106.5	-0.4	5.50
S & W Magnum	5	111.8	111.8	120.0	+0.2	1.83
S & W Smlr Secs	5	250.1	256.0xd	270.9	+2.4	0.75
S & W Throughgard	5	129.0	129.0xd	138.3	+0.2	1.89
Societe Generale Tauche Remnant (1600)F						
Mermaid Hse 2 Puddle Dock, EC4V 3AT 071-248 1250						
4 Hourly Pricing – 12 Noon Historic						
American Gwth	5¼	73.53	73.53	78.64	-4.75	0
Eur Sp Sits Acc	5¼	39.64	39.64	42.23	-0.22	0
Eur Sp Sits Inc	5¼	37.44	37.44xd	39.88	-0.21	0
Far East Opps Inc	5¼	24.83	24.83	26.77	-0.48	0
Far East Opps Acc	5¼	25.51	25.51	27.49	-0.49	0
General Growth	5¼	90.12	90.12	96.77	+0.27	3.11
General Growth Acc	5¼	91.63	91.63	98.39	+0.27	3.09
Global Tech	5¼	106.00	106.00xd	114.80	-0.40	0
Income Growth	5¼	88.77	88.77	95.60	-0.03	[illegible]

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Whittingdale Unit Tst Mgmt Ltd (0830)F						
2 Honey Lane, London EC2V 8BT 071-600 0462						
Challenger	2¼	85.80	85.80xd	87.83	+0.40	0.00
Short Dua Gilt	1¼	106.2	106.2	107.6	-0.10	1.93
U.S. Govmt Bond	1¼	[illegible]	[illegible]	[illegible]	[illegible]	0.00
Gilt Income	4	51.19	51.19	53.26	-0.09	[illegible]
Gilt Growth	4	62.80	62.80xd	65.36	-0.11	0.00
City Reserve	0	55.26	55.26	55.26	...	7.88
Woolwich Unit Trust Managers Ltd (1700)H						
1 White Oak Square, Swanley BR8 7AG 0705 388046						
Stockmarket Fd F	5	61.22	61.44	65.36	+0.20	2.52

OTHER UK UNIT TRUSTS

	Bid Price	Offer Price	+ or -	Yield Gross
Baillie Gifford & Co Ltd				
Int'l Expt Nov 30	657.4	680.8	—	1.02
Baring Investment Mngmt Ltd				
155 Bishopsgate, London EC2M 3XY				
071 214 1050 (general enquiries) 071 214 1004 (dealing)				
Charitable Funds				
UK Growth & Income	50.70	52.94	...	4.7
Income Plus	48.25	49.21	.....	7.5
James Capel Fund Managers Ltd				
Managed Exempt	121.919	128.876	+0.506	4.18
Cent. Bd. of Fin. of Church of England				
2 Fore Street, London EC2Y 5AQ 071-588 1815				
Inv Fund Nov 30	559.95	565.60	....	5.27
Fxd Int Sec Nov 30	149.10	149.85	.....	9.68
Deposit Fund: See Money Market Trust Funds.				
Charinco/Charishare (1000)F				
33 King William Street, EC4R 9AS 071-280 2800				
Charinco Inc	170.9	173.0xd	-0.20	9.48
Charinco Acc	1002	1014xd	-1.00	9.48
Charishare Inc	176.1	180.2xd	+0.50	4.44
Charishare Acc	228.0	233.4xd	+0.70	4.44

	Bid Price	Offer Price	+ or -	Yield Gross
AEGON Life Assurance Co (UK) Ltd				
AEGON Hse, Lanark Sq, London E14 9XS 071-538 8800				
Life Series 2				
Aggressive Ptflio Fund	118.7	125.7	-0.2	–
Balanced Ptflio Fund	337.7	357.4	-1.2	–
Cautious Ptflio Fund	137.4	145.5	-0.1	–
Elite Fund	124.0	131.3	+0.4	–
European Fund	90.5	95.8	-2.4	–
Far East Fund	85.3	90.3	-1.1	–
Fixed Interest Fund	285.9	302.6	+0.7	–
International Fund	230.2	243.7	-3.6	–
Money Fund	234.2	247.9	.....	–
N. American Fund	185.3	196.1	-2.6	–
Property Fund	386.5	409.1	+0.1	–
UK Equity Fund	429.9	455.0	+0.6	–
AI M. Brode Diplm Fund	96.0	101.6	+1.5	–
Swiss Select Inv	85.6	91.0	.....	–
Sheppards Mgd Fund	112.6	[illegible]	[illegible]	–
Swiss Global Fund	141.8	[illegible]	[illegible]	–
Hardwick Tst Fund	81.2	[illegible]	[illegible]	–
Kiwet Bonus Mgd An Fd	92.6	[illegible]	[illegible]	–
Perpetual Mngd Fd	152.7	[illegible]	[illegible]	–
With Profits Fd	126.0	[illegible]	[illegible]	–
Pension Series 3				
Aggressive Ptflio Fd	104.6	[illegible]	[illegible]	–
Balanced Ptflio Fd	103.0	[illegible]	[illegible]	–
Cautious Ptflio Fd	107.5	[illegible]	[illegible]	–
Elite Fund	100.4	[illegible]	[illegible]	–
European Fund	98.2	[illegible]	[illegible]	–
Far East Fund	85.2	[illegible]	[illegible]	–
Fixed Interest Fund	118.6	[illegible]	[illegible]	–
International Fd	92.7	[illegible]	[illegible]	–
Money Fund	109.0	[illegible]	[illegible]	–
North American Fd	135.7	[illegible]	[illegible]	–
Property Fund	99.7	[illegible]	[illegible]	–
UK Equity Fd	104.3	[illegible]	[illegible]	–
Kiwet Bonus Mgd An Fd	85.1	[illegible]	[illegible]	–
Perpetual Mgd Fd	113.0	[illegible]	[illegible]	–
With Profits Fd	108.9	[illegible]	[illegible]	–
Bldg Soc Growth Fd	110.4	[illegible]	[illegible]	–

INSURANCES

Continued on next page

FT MANAGED FUNDS SERVICE

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Prolific Life & Pensions Ltd

Stramongate, Kendall, Cumbria LA9 4UB 0539 733733

Managed Fund see Balanced Growth Managed Fund

	Bid Price	Offer Price	+ or -	Yield Gross
Life Funds				
Balanced Grwth Mngd	619 0	658.4	+1 1	-
Adventurous Mngd	147.3	156 8	+0.3	-
Cautious Mngd	119.5	127.2	+0.1	-
Cash Fd	314 4	331.4	....	-
Property Fund	217.5	231.4		-
Equity Fund	704.6	749 6	+2.4	-
Fxd Int. Fund	392.6	413.8	-0.3	-
International	314.3	334 4	+0 9	-
High Income	542.9	577.6	+0.3	-
Far East	405.4	431 3	-2 1	-
North American	417.9	444.6	+2 9	-
Special Sits	499.0	530 9	+1 0	-
Technology	418.2	444 9	+4.7	-
Extra Inc Fd	298.7	317.8	+0.4	-
Convertible & Gilt Fd	143 2	152.4	-0.2	-
American Income	166.9	177 6	+1.5	-
Gilt Fund 20	433 5	461 2	+0.3	-
European Fund	111 8	119 0		-
Pref & Fixed Int	107 7	114.6	+0 1	-
UK Blue Chip	113.2	119.3	+0.2	-
Recovery Fund	104.1	109.7	+0.2	-
Equity Income Dist	100.4	106 9	+0.2	5.02
Managed Dist	95 3	101.4	+0 1	5 34
High Yield Dist	99 6	105 0	+0.1	7 48
Pension Funds				
Balncd Gth Mgd Pens Acc	715.9	753 6	+0.2	-
Adventurous Mgd Pens Acc	153.3	161.4	+0.3	-
Cautious Mngd Pens Acc	137.2	144.5	+0 1	-
Building Soc. Acc	361 9	381.0		-
Property Pens. Acc	295.3	310 9		-
Fix Int. Pens Acc	620 0	652 7	-0.3	-
Equity Pens. Acc	896 0	943.2	-0.9	-
International Pens Acc	288.6	303.8	+0 4	-
High Inc Pens Acc	611 4	643 6	+0 9	-
Tech Pens Acc	295.5	311.1	+3.7	-
N American Pens Acc	314 0	330 6	+2.0	-
Far Eastern Pens Acc	398 7	419 7	-2.0	-
Special Sits Pens Acc	410.6	432.3	+1.1	-
Extra Income Pens Fd	364 2	383.4	+0.8	-
Convertible & Gilt Pen	175 0	184.3	+1.9	-
American Inc Pens	190 6	200.7	.....	-

Reliance Mutual

Reliance House, Tunbridge Wells, Kent 0892 510033

	Bid Price	Offer Price	+ or -	Yield Gross
Deposit Acc Fd	267 1	275 9	+0 1	-
Equity Acc Fd	386 8	407 1	+1 8	-
Managed Acc Fd	338.9	356 7		-
Prop Fd (1st Issue)	-	614 1		-
Prop Acc Fd (2nd Iss)	121 0	127 4		-
Unit Trust Mn. Fd	149.7	157 6		-
RL Pension Funds				
Deposit Acc	242 2	255 0	+0.2	-
Equity Acc	284 4	299.4	+1.7	-
Fixed Int Acc	242 9	255 6		-
Gilt Indx Lnk Acc	183 0	192 6		-
Managed Acc	371.8	391 4		-

J Rothschild Assurance PLC

J Rothschild House, Dollar Street, Cirencester

Telephone 0285 640302 Helpline 041 307 6500

	Bid Price	Offer Price	+ or -	Yield Gross
Life Funds				
JRA/M&G Managed	107.9	113 6	-0 10	-
JRA/Scottish Amicable Mngd	103 8	109.3	-0 40	-
JRA/St James's Place Mngd	110 0	115 8	+0 10	-
Deposit	99 40	104 7		-
Far East	107.3	113 0	-0 60	-
Gilts	104.1	109 6	+0.10	-
Greater European	106 7	112.4	+0 90	-
North American	121 6	128.1	-0 30	-
UK Equity	107 6	113.3	-0 40	-
Pension Funds				
JRA/M&G Managed cap	105 1	110.7	-0 30	-
JRA/M&G Managed acc	108.3	114 1	-0 20	-
JRA/Scottish Amicable Mngd cap	100.6	105.9	-0 30	-
JRA/Scottish Amicable Mngd acc	103 6	109 1	-0.40	-
JRA/St James's Pl Mngd cap	111.8	117.7	+0 10	-
JRA/St James's Pl Mngd acc	115.3	121.4	+0.20	-
Deposit cap	99 70	105.0	+0 10	-
Deposit acc	102.7	108.2	+0 10	-
Far East cap	102.8	108 3	-0 60	-
Far East acc	106.0	111.6	-0 60	-

Scottish Mutual Assurance plc

Scottish Provident Institution

Scottish Widows' Group

Shield Assurance Ltd

Skandia Life Assurance Co Ltd

Save & Prosper Group

Scottish Amicable

Scottish Equitable Life Assce. Soc.

Scottish Life Investments

Royal Heritage Life Assurance Ltd

Royal Life Insurance Ltd

Royal Liver Assurance

Prosperity Life Assurance Ltd

Providence Capital Life Assc. Co Ltd

Provident Life Assoc Ltd

Provident Mutual Life Assc. Assn.

Prudential Assurance Co

Prudential Corporate Pension Funds

Prudential Individual Life Funds

Prudential Individual Pension Funds

Sun Alliance Group - Contd.

Sun Life Unit Assurance Ltd

Swiss Life (UK) PLC

Swiss Pioneer Life Plc

TSB Life Ltd

Target Life Assurance Co Ltd

Teachers' Assurance Company Ltd

Templeton Life Assurance Limited

Standard Life Assurance Company

Sun Alliance Group

Tunbridge Wells Equitable

Wesleyan Assurance Society

Windsor Life Assurance Co Ltd

Woolwich Life Assurance Co Ltd

Zurich Life Assurance Co Ltd

OFFSHORE INSURANCES

AXA Equity & Law Intl Life Assce Co

AEtna Intl Assurance (Bermuda) Ltd

Albany International Assurance Ltd

CMI Insurance Co Ltd

Eagle Star Intl Life

Equitable Life (International)

Eurolife Assurance Group

Finsbury International Ltd

Hafnia Prolific International

Hansard International Ltd

Isle of Man Assurance Ltd

NEL Britannia International Ltd

PanEuroLife societe anonyme

Providence Capital International Ltd

Royal Life Intl. Ltd

Royal Skandia Life Assurance Ltd

Sun Alliance International Life

Target International Group

MANAGEMENT SERVICES

Bain Clarkson Asset Management

C F S Financial Mngmt

Capital Trust Financial Management

Chase de Vere PLC

ECU Investment Plc

Fairmount Financial Services Ltd

Foster & Braithwaite Ltd

Harrisbridge Financial Services (Pty) Ltd

IFS Capital Management PLC

Independent Financial Group PLC

Johnson Fry Asset Managers Plc

Knight Williams & Company Ltd

Macartney & Dowie Invest Mngt Plc

Northam Biggs & Partners

Pembroke Financial Services Ltd

Richmond Financial Management Ltd

Charles Stanley & Co Ltd

Tattersall Investment Mngt. Ltd

J. D. Ward Financial Services Ltd

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Money Funds

Lloyd George Management

Newport Investment Management

Orion Fund Limited

CANADA (SIB RECOGNISED)

GBC Asset Management

GUERNSEY (SIB RECOGNISED)

AIB Grofund Inv Managers (Guernsey) Ltd

Barclays Intl Fd Managers (Guernsey) Ltd

Equitable International Fund Managers Ltd

Guinness Flight Intl Fd Mngrs (Guernsey) Ltd

Henderson Fd Mgrs (CI) Ltd

Kleinwort Benson Intl Fd Mngrs Ltd

Lazard Fund Mngrs (Channel Islands) Ltd

Lion World Fixed Income Fund

Lloyds Intl Money Market Fund Ltd

M & G (Guernsey) Ltd

Prudential Fund Managers (Guernsey) Ltd

Rothschild Asset Management (CI) Ltd

Royal Bank of Canada Offshore Fd Mngrs Ltd

Sarasin Funds Mngmt (Guernsey) Ltd

GUERNSEY (REGULATED)

IRELAND (SIB RECOGNISED)

Merrill Lynch Guernsey

Nikko Capital Mngt (Europe) Ltd

Quilter International Management Ltd

Rothschild Asset Mngmt (CI) Ltd

Saudi International (Guernsey) Ltd

Schroder Investment Mngt (Guernsey) Ltd

U.S. Treasury Securities Fund Ltd

Rudolf Wolff Capital Management

Yamaichi Capital Management (Guernsey) Ltd

GAM Fund Management Ltd

GT Asset Management (Ireland) Ltd

Hafnia Prolific International Mngmt Ltd

Morgan Grenfell Investment Funds Ltd

Swiss Life Investment Fund

IRELAND (REGULATED)

Bank of Ireland Unit Managers Ltd

Baring International Fd Mngrs (Ireland) Ltd

Baring Mutual Fund Mngmt (Ireland) Ltd

Federated International Funds Plc

GT Asset Mngmt (Ireland) Ltd

Gartmore Portfolio Managers Limited

Irish Life International Fd Mngrs Ltd

Morgan Grenfell Fund Mngrs (Ireland) Ltd

Sanwa International (Ireland) Plc

ISLE OF MAN (SIB RECOGNISED)

AXA Equity & Law Intl Fund Mngrs

Allied Dunbar Intl Fund Mngrs

Asset Global Funds Ltd

CMI Fund Managers (IoM)

Gartmore Fund Managers (IoM)

Leopold Joseph Fund Mngrs (IoM) Ltd

Mercury Fund Managers Intl Ltd

Sun Life Management (IoM) Ltd

Outlook Scandinavian Fund Ltd

ISLE OF MAN (REGULATED)

ATC Fund Management (IoM) Ltd

AXA Equity & Law Intl Fund Mgrs

City Financial Admin (IoM)

Gartmore Fund Managers (IoM) Ltd

John Govett Management (IoM) Ltd

FT MANAGED FUNDS SERVICE

• Current Unit Trust prices are available from FT Cityline. For further details call (071) 925 2128.

JERSEY (SIB RECOGNISED)

LUXEMBOURG (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar resists positive data

THE DOLLAR lost ground against a wide range of currencies yesterday despite recent positive economic news from the US. Meanwhile sterling performed very strongly against the dollar and continued its assault on the DM2.50 level which it tested last week, *writes Peter John*.

The US currency opened at DM1.5787, down from Friday's close. Foreign exchange dealers said that concentration on European currencies ahead of the EC summit in Edinburgh ensured that the dollar remained on the sidelines. Also, comments from the Bundesbank reaffirming commitment to current interest rates prompted some weakness.

Mr Mark Austin, an economist with the HongKong Shanghai Bank said: "People have been holding long positions on the D-Mark which they have been closing up. There was also a story that a slightly stronger performance of the US economy would make Clinton less liable to make fiscal changes."

The dollar was further affected by heavy switching as investors moved into Swiss francs after Switzerland's rejection on Sunday of closer European ties in the European Economic Area. The dollar closed nearly three pfennigs lower against the D-Mark at DM1.5685 and hit SFr1.4000, down from SFr1.4335 previously. It was slightly weaker against the Yen.

The Swiss franc had suffered initially as the Swiss decision was considered poor for the Swiss economy and for Switzerland as an investment centre.

However, the buyers who finally prevailed believed capital flows were in no danger, and a 'no' took Switzerland further away from any association with trouble in the ERM.

That "safe-haven" benefit came into play again as rumours resurfaced that the French franc could be devalued. A press article saying that France was prepared to devalue its currency struck a chord with a number of dealers.

Despite a strong denial from the French finance ministry, the franc slipped to FFr3.408 against the D-Mark.

Sterling continued to push against DM2.50. By the close of dealing in London the pound was at DM2.490 against DM2.4875. It also rose to $1.5875 after hitting a peak of $1.6020, some three cents above its opening.

Economists said the pound was still in favour for its isolation from the tension in the ERM rather than a fundamental recovery in the UK economy. However, it also received a boost from a higher than anticipated rise in consumer credit spending.

● Slovenia's tolar continued to strengthen against other currencies in former Yugoslavia in October, the anniversary of its introduction, figures from the newly-independent country's central bank show.

The tolar, introduced at parity to the Yugoslav dinar on October 8 1991, averaged 17.85 per 100 dinars in October this year, the Bank of Slovenia said in its November bulletin.

£ IN NEW YORK

Dec 7	Latest	Previous Close
£ Spot	1.5880 - 1.5890	1.5680 - 1.5610
1 month	[illegible]	[illegible]
3 months	[illegible]	[illegible]
12 months	[illegible]	[illegible]

Forward premiums and discounts apply to the US dollar

STERLING INDEX

[illegible]

CURRENCY RATES

[illegible]

CURRENCY MOVEMENTS

[illegible]

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1985=100). *Rates are for Dec 4

OTHER CURRENCIES

[illegible]

*Floating rate

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu Central Rates	Currency Amounts Against Ecu Dec 7	% Change from Central Rate	% Spread v Weakest Currency	Divergence Indicator
Portuguese Escudo	182.194	174.972	-3.96	5.58	67
Spanish Peseta	143.386	141.416	-1.37	2.81	24
Belgian Franc	40.6304	40.4436	-0.46	1.87	30
Dutch Guilder	2.21958	2.20871	-0.49	1.90	32
D-Mark	1.96992	1.96553	-0.22	1.63	45
Irish Punt	0.735334	0.742297	0.95	0.45	-35
French Franc	6.60683	6.69866	1.71	0.19	-58
Danish Krone	7.51410	7.61929	1.40	0.00	-57

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. (17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by Financial Times.

POUND SPOT - FORWARD AGAINST THE POUND

[illegible]

Commercial rates taken towards the end of London trading. Six-month forward dollar 2.34-2.29cpm. 12 Month 3.82-3.72cpm

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

[illegible]

Commercial rates taken towards the end of London trading. † UK, Ireland and ECU are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency.

EURO-CURRENCY INTEREST RATES

[illegible]

Long term Eurodollars: two years 5¼-5 per cent; three years 5⅞-5¾ per cent; four years 6¼-6⅛ per cent; five years 6⅝-6½ per cent nominal. Short term rates are call for US Dollars and Japanese Yen, others: two days' notice.

EXCHANGE CROSS RATES

	£	$	DM	Yen	F Fr.	S Fr.	N Fl.	Lira	C$	B Fr	Pta	Ecu
£	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	2.223	2.800	2191	2.019	51.50	178.2	1.268
$	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1.400	1.763	1380	1.271	32.43	112.2	0.798
DM	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0.893	1.124	879.9	0.811	20.68	71.57	0.509
YEN	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	11.26	14.18	11094	10.22	260.8	902.3	6.430
F Fr.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	2.620	3.300	2582	2.379	60.70	210.0	1.494
S Fr.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1	1.260	985.6	0.908	23.17	80.16	0.570
N Fl.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0.794	1	782.5	0.721	18.39	63.64	0.453
Lira	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1.015	1.278	1000	0.921	23.51	81.33	0.579
C$	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1.101	1.387	1085	1	25.51	88.26	0.628
B Fr.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.317	5.437	4254	3.920	100	346.0	2.462
Pta	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1.247	1.571	1230	1.133	28.90	100	0.712
Ecu	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1.753	2.208	1728	1.592	40.62	140.5	1.

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100: Peseta per 100

FINANCIAL FUTURES AND OPTIONS

[illegible]

THREE MONTH EURO SWISS FRANC
SFR 1m points of 100%

	Close	High	Low	Prev.
Dec	93.63	93.68	93.50	93.58
Mar	94.33	94.42	94.23	94.30
Jun	94.75	94.80	94.66	94.70
Sep	94.90	94.91	94.82	94.87

Estimated volume 6965 (5725)
Previous day's open int. 45420 (44538)

THREE MONTH EUROLIRA INT. RATE
LIRA 1,000m points of 100%

	Close	High	Low	Prev.
Dec	85.55	85.55	85.45	85.45
Mar	86.60	86.60	86.40	86.37
Jun	87.23	87.23	87.10	87.07
Sep	87.63			87.51

Estimated volume 1785 (1399)
Previous day's open int. 21666 (21951)

FT-SE 100 INDEX *
£25 per full index point

	Close	High	Low	Prev.
Dec	2760.0	2792.0	2754.0	2768.0
Mar	2788.0	2820.0	2786.0	2795.5
Jun	2809.0	2832.0	2829.0	2816.0

Estimated volume 10439 (7302)
Previous day's open int. 46219 (46080)

* Contracts traded on APT. Closing prices shown.

POUND - DOLLAR

FT FOREIGN EXCHANGE RATES

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.5875	1.5830	1.5748	1.5643	1.5498

OPTION ON LONG-TERM FRENCH BOND (MATIF)

Strike	Calls January	Calls March	Calls June	Puts January	Puts March	Puts June
109	-	2.53	-	0.06	0.43	-
110	-	1.81	-	0.18	0.68	-
111	0.61	1.19	-	0.50	1.06	-
112	0.21	0.74	-	-	-	-
113	0.03	0.40	0.97	-	-	-
Open int	17,577	180,822	23,100	8,765	146,788	15,620

Estimated volume 15,424 † Total Open Interest 392,672
† All Yield & Open Interest figures are for the previous day.

BASE LENDING RATES

	%		%		%
Adam & Company	7	Credit Lyonnais	7	McDonnell Douglas Bank	7
Allied Trust Bank	7	Cyprus Popular Bk	7	Midland Bank	7
AIB Bank	7	Duncan Lawrie	7	Mount Banking	7
● Henry Ansbacher	7	Equatorial Bank plc	7	NatWestminster	7
B & C Merchant Bank	13	Exeter Bank Limited	8	Northern Bank Ltd	7
Bank of Baroda	7	Financial & Gen. Bank	8	Nykredit Mortgage Bank	7.5
Banco Bilbao Vizcaya	7	● Robert Fleming & Co.	7	● Rea Brothers	7
Bank of Cyprus	7	Girobank	7	Roxburghe Bank Ltd.	9
Bank of Ireland	7	● Guinness Mahon	7	Royal Bk of Scotland	7
Bank of India	7	Habib Bank AG Zurich	7	● Smith & Williamson Secs.	7
Bank of Scotland	7	● Hambros Bank	7	Standard Chartered	7
Barclays Bank	7	Hampshire Trust Plc	13.5	TSB	7
Brit Bk of Mid East	7	Heritable & Gen Inv Bnk.	7	Unibank plc	7
● Brown Shipley	7	● Hill Samuel	7	● United Bk of Kuwait	7
CL Bank Nederland	7	C. Hoare & Co.	7	Unity Trust Bank Plc	7
Citibank NA	7	Hongkong & Shanghai	7	Western Trust	7
City Merchants Bank	7	Julian Hodge Bank	7	Whiteaway Laidlaw	7
Clydesdale Bank	7	● Leopold Joseph & Sons	7	Yorkshire Bank	7
Co-operative Bank	7	Lloyds Bank	7		
Coutts & Co	7	Meghraj Bank Ltd	7		

● Members of British Merchant Banking & Securities Houses Association.

MONEY MARKETS

Futures hit in late trade

STERLING futures fell as dealers adjusted positions yesterday and the belief hardened that base rates will remain at 7 per cent for the next few months, *writes Peter John*.

The March contract opened marginally higher but a rally was unsustainable and it drifted back throughout the day. Then, shortly before the official close, the contract was hit again and sold down to 93.27. The pressure came from a large options-related trade. Dealers said one financial house had sold short sterling and written more than 2,200 March 93.25 sterling calls.

UK clearing bank base lending rate 7 per cent from November 13, 1992

At the official close, March short sterling was around its lows of the day with more than 22,000 contracts dealt. It was joined by the franc and D-Mark contracts which also retreated from expectations that interest rates are about to fall. March Pibor settled 25 basis points lower at 91.30 while the March Euromark contract fell 14 to 92.14.

Meanwhile, cash rates remained steady with three-month Libor holding at 7¼. There was some pressure at the shorter end as a result of a lower than expected liquidity shortage forecast from the Bank of England. Expectation that the shortage would easily be taken out meant that few people would be interested in borrowing overnight. The rate dropped to 6½ per cent as the Bank forecast a shortage of around £100m, up to £200m below some estimates.

Among the main factors affecting the position were exchequer transactions, expected to remove £775m from the system, take-up of treasury Bills and paper maturing in official hands and bankers' balances below target. These were partly offset by a fall in note circulation adding £780m.

The Bank did not operate in the money market at midday, nor in the afternoon, but later revised its shortage forecast to £250m. During late assistance, the period when the term of loans are not mentioned, the central bank provided £180m.

It also announced the roll-over details of the temporary arrangement first made available on September 18 to help money market liquidity after the collapse of sterling on Black Wednesday. The Bank yesterday set a weekly rate of 6⅞ per cent on the agreement.

Meanwhile, German call money, which is reflected by the narrow money supply band, firmed slightly to about 8.90 per cent after Friday's 8.85 per cent.

FT LONDON INTERBANK FIXING

(11.00 a.m. Dec 7) 3 months US dollars		6 months US Dollars	
bid 3⅝	offer 3¾	bid 3$\frac{11}{16}$	offer 3$\frac{13}{16}$

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted to the market by five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque National de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK

Lunchtime		Treasury Bills and Bonds			
Prime rate	6	One month	3.24	Three year	5.17
Broker loan rate	5	Two month	3.34	Five year	6.04
Fed funds	3⅛	Three month	3.33	Seven year	6.44
Fed. funds at intervention	-	Six month	3.47	10-year	6.79
		One year	3.67	30-year	7.48
		Two year	4.62		

Dec 7	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	8.85-8.95	8.90-9.10	8.85-9.00	8.85-9.00	8.50-8.65	9.50
Paris	9¾-10	10⅛-10½	-	10-10½	-	9.10
Zurich	5¾-6	6½-6⅝	-	6¼-6⅜	-	-
Amsterdam	-	-	-	-	-	-
Tokyo	3$\frac{7}{32}$-3$\frac{11}{32}$	3¼-3$\frac{1}{2}$	-	-	-	-
Milan	12¾-13	14$\frac{1}{16}$-14$\frac{11}{16}$	-	14$\frac{7}{16}$-14$\frac{11}{16}$	-	-
Brussels	8¼-8⅜	8$\frac{11}{16}$-8$\frac{13}{16}$	-	8¼-8⅜	-	-
Dublin	20-25	21-23	18-20	16¾-18	14½-16	-

LONDON MONEY RATES

Dec 7	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	8	7	7$\frac{3}{16}$	7⅛	6$\frac{15}{16}$	6$\frac{15}{16}$
Interbank Bid	6	6⅞	6$\frac{15}{16}$	7	6$\frac{13}{16}$	6$\frac{13}{16}$
Sterling CDs	-	-	7	6$\frac{15}{16}$	6$\frac{13}{16}$	6$\frac{13}{16}$
Local Authority Deps	7	7	7$\frac{1}{16}$	7$\frac{1}{16}$	6$\frac{15}{16}$	6$\frac{15}{16}$
Local Authority Bonds	-	-	-	-	-	-
Discount Mkt Deps	7	6¾	-	-	-	-
Company Deposits	-	-	-	-	-	-
Finance House Deposits	-	-	7	7	6$\frac{15}{16}$	6¾
Treasury Bills (Buy)	-	-	6¾	6$\frac{11}{16}$	6½	-
Bank Bills (Buy)	-	-	6$\frac{11}{16}$	6$\frac{11}{16}$	6½	-
Fine Trade Bills (Buy)	-	-	-	-	-	-
Dollar CDs	-	-	3.40	3.35	3.48	3.90
SDR Linked Dep. Offer	-	-	5⅛	5⅛	5⅛	5⅛
SDR Linked Dep. Bid	-	-	5⅛	5⅛	5⅛	5⅛
ECU Linked Dep. Offer	-	-	11⅛	10$\frac{13}{16}$	10¼	9⅛
ECU Linked Dep. Bid	-	-	11⅛	10$\frac{11}{16}$	10⅛	9⅛

Treasury Bills (sell), one-month 6⅝ per cent; three months 6$\frac{9}{16}$ per cent; six months 6⅜ per cent; Bank Bills (sell), one-month 6$\frac{9}{16}$ per cent; three months 6$\frac{9}{16}$ per cent; Treasury Bills; Average tender rate of discount 6.4035. ECGD Fixed Rate Sterling Export Finance. Make up day November 30 1992. Agreed rates for period December 26, 1992 to January 25, 1993, Scheme I: 8.71 p.c. Schemes II & III 8.54 p.c. Reference rate for period October 31 1992 to November 30, 1992, Scheme IV&V 7.267 p.c. Local Authority and Finance Houses seven days' notice, others seven days fixed. Finance Houses Base Rate 8 from December 1, 1992: Bank Deposit Rates for sums at seven days notice 4 per cent. [illegible] over held under one month 4¼ per ce[illegible] cent, six-nine months 6¼ per cent, [illegible] from Oct 20 1992. Deposits withdr[illegible]

MONEY MARKET FUNDS

Money Market Trust Funds

[illegible]

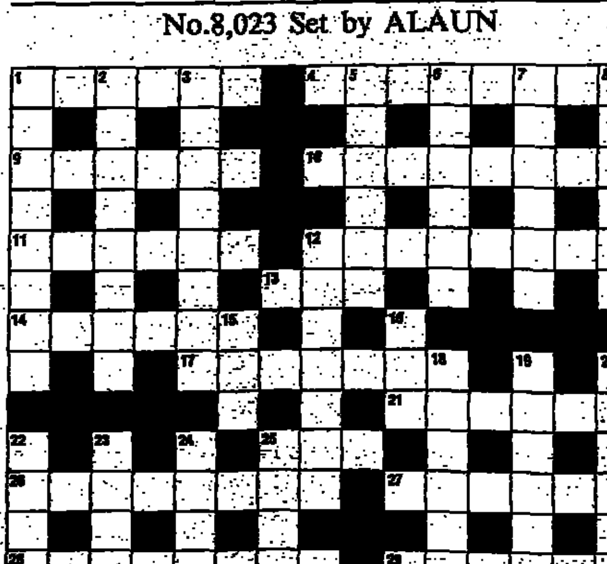
Money Market Bank Accounts

[illegible]

NOTES – Gross: Contractual rate of interest payable, not taking into account the deduction of basic rate income tax. Net: Rate of interest payable after allowing for deduction of basic rate income tax. CAR: Gross rate expressed to take into account the compounding of interest paid other than once a year. Frequency at which interest is credited to the account.

CROSSWORD

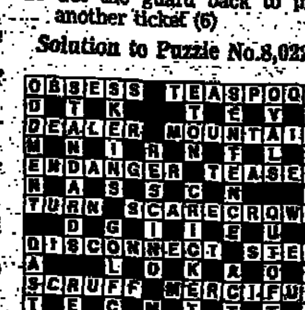
No.8,023 Set by ALAUN



ACROSS
1 Ill-dressed nun, bedraggled baby (6)
4 Arrived and put to shame (6,2)
9 This time one has a double (6)
10 Hold the attention of in return (8)
11 One's all prepared when the twit comes round (6)
12 The occupant let the players in (8)
13 "That woman" is in hard back again (5)
14 Nibbled the Brighton rock? (6)
17 Rang back from the valley to get assistance (7)
21 A hollow, or hole, in the wood (6)
25 He sells cloth (3)
26 Got the boat out to take one back home (8)
27 Make free of charge (6)
28 Difficult or just the opposite (8)
29 The girl is as bad in the half mile (6)
30 Right inside the thick feathers (4,4)
31 The major part of the population (6)

DOWN
1 Rocked, one observes, and frightened (8)
2 Says I have no standing, to my disgust (8)
3 Whispered "The money is outside" (8)
5 Horse that shouldn't run fast! (6)
6 Found in the granary, half were bad (6)
7 Considered getting into the act myself (6)
8 Possibly a chip shot at the hole (6)
12 Came back in the red, the pile having been dissipated (7)
15 Acted up too (3)
16 Woman who was turned to stone (3)
18 A big nipper! (8)
19 Pass the rope up – that's great (8)
20 Excessive, could be lessened (8)
22 Broke open when made to (6)
23 The attitude in ascent is different (6)
24 Draw the shade when having rows (6)
25 Get the guard back to pick another ticket (6)

Solution to Puzzle No.8,022



WORLD STOCK MARKETS

CANADA

TORONTO

3 pm December 7

MONTREAL

3 pm December 7

Total Sales 11,234,200 shares

INDICES

NEW YORK

DOW JONES	Dec 7	Dec 4	Dec 3	Dec 2	1992 HIGH	1992 LOW	Since compilation HIGH	Since compilation LOW
Industrials	3288.68	3276.53	3286.25	3294.36	3413.21 (1/6)	3136.58 (9/10)	3413.21 (1/6/92)	41.22 (2/7/32)
Home Bonds	102.62	102.52	102.44	102.50	103.20 (18/9)	98.41 (20/3)	103.20 (18/9/92)	54.99 (1/10/81)
Transport	1430.27	1436.91	1426.85	1423.82	1467.68 (20/2)	1204.40 (26/8)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	216.57	216.45	217.39	218.20	225.59 (3/1)	200.74 (8/4)	236.23 (2/1/90)	10.50 (8/4/32)

DJ Indl. Day's High (3312.46) Low (3261.40) (Theoretical#)
Day's High (3298.95) Low (3272.75) (Actual#)

STANDARD AND POOR'S

	Dec 7	Dec 4	Dec 3	Dec 2	1992 HIGH	1992 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	432.06	429.91	429.89	430.78	432.06 (4/12)	394.50 (8/4)	432.06 (4/12/92)	4.40 (1/6/32)
Industrials	507.00	504.39	504.59	505.45	507.00 (4/12)	470.91 (8/4)	507.00 (4/12/92)	3.62 (21/6/32)
Financial	39.35	39.07	38.96	39.08	39.35 (4/12)	32.40 (8/4)	39.35 (4/12/92)	8.64 (1/10/74)
NYSE Composite	237.77	236.76	236.74	237.20	237.77 (4/12)	217.92 (8/4)	237.77 (4/12/92)	4.46 (25/4/42)
Amex Mkt. Value	394.95	393.68	392.56	392.97	418.99 (12/2)	364.85 (9/10)	418.99 (12/2/92)	29.31 (9/12/72)
NASDAQ Composite	661.60	656.36	652.91	653.95	661.60 (4/12)	547.84 (26/6)	661.60 (4/12/92)	54.87 (31/10/72)

	Nov 27	Nov 20	Nov 13	year ago (approx.)
Dow Industrial Div. Yield	3.14	3.19	3.17	3.15

	Dec 2	Nov 25	Nov 18	year ago (approx.)
S & P Industrial div. yield	2.61	2.62	2.65	2.80
S & P Ind. P/E ratio	26.71	26.43	27.21	22.79

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Tyco Toys	6,458,900	12¾	+1⅛
Gen Motors	4,618,700	33⅞	+1⅛
Glaxo	4,502,000	25⅜	-⅛
Chrysler	4,339,500	35⅞	+⅞
Home Shop	2,657,700	[illegible]	[illegible]
RJR Nabisco	2,627,800	[illegible]	[illegible]
Varity	[illegible]	[illegible]	[illegible]
East Kodak	[illegible]	[illegible]	[illegible]
Compaq	[illegible]	[illegible]	[illegible]
McDonnell	1,750,500	[illegible]	[illegible]

TRADING ACTIVITY

† Volume Millions	Dec 4	Dec 3	Dec 2
New York SE	227.410	237.990	241.860
Amex	14.655	16.497	19.812
NASDAQ	261.132	239.035	243.181
NYSE			
Issues Traded	2,404	2,393	2,380
Rises	991	912	858
Falls	759	872	936
Unchanged	654	609	586
New Highs	115	81	94
New Lows	17	20	17

CANADA

TORONTO	Dec 7	Dec 4	Dec 3	Dec 2	1992 HIGH	1992 LOW
Metals & Minerals	2759.39	2747.71	2777.06	2753.87	3238.87 (16/1)	2529.91 (17/11)
Composite	3289.40	3264.90	3265.25	3273.70	3666.00 (16/1)	3195.40 (14/10)
MONTREAL Portfolio	1736.59	1726.36	1728.06	1728.76	1937.99 (16/1)	1663.16 (14/10)

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable. # The DJ Indl. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's).

	Dec 7	Dec 4	Dec 3	Dec 2	1992 HIGH	1992 LOW
AUSTRALIA						
All Ordinaries (1/1/80)	1444.7	1435.2	1433.8	1438.5	1684.50 (22/5)	1357.20 (16/11)
All Mining (1/1/80)	559.6	559.8	557.8	561.4	726.80 (3/7)	545.40 (16/11)
AUSTRIA						
Credit Aktien (30/12/84)	311.67	318.42	309.59	312.72	458.57 (24/2)	291.41 (13/8)
Traded Index (2/1/91)	755.75	754.31	751.54	759.91	1099.43 (24/2)	682.96 (13/8)
BELGIUM						
BEL20 (1/1/91)	1129.68	1129.15	1127.22	1116.16	1235.40 (2/6)	1046.07 (2/9)
DENMARK						
Copenhagen SE (3/1/83)	264.03	263.56	264.09	262.78	365.29 (15/1)	250.42 (28/10)
FINLAND						
HEX General (28/12/90)	870.0	856.9	843.8	846.9	935.90 (24/2)	541.00 (7/9)
FRANCE						
CAC General (31/12/81)	471.31	474.82	475.16	470.64	555.93 (12/5)	441.70 (7/10)
CAC 40 (31/12/87)	1788.61	1781.68	1799.43	1783.33	2077.49 (11/5)	1611.04 (5/10)
GERMANY						
FAZ Aktien (31/12/58)	602.52	602.21	602.82	606.77	725.26 (26/5)	565.61 (12/10)
Commerzbank (1/12/53)	1703.0	1702.70	1704.3	1717.30	2043.80 (25/5)	1594.60 (12/10)
DAX (30/12/87)	1525.32	1522.16	1532.5	1533.96	1811.57 (25/5)	1420.30 (6/10)
HONG KONG						
Hang Seng Bank (31/7/64)	5191.75	5268.10	4978.21	5411.65	6447.11 (12/11)	4301.78 (2/1)
IRELAND						
ISEQ Overall (4/1/88)	1176.74	1188.92	1194.36	1197.67	1469.57 (17/1)	1094.88 (19/10)
ITALY						
Banca Com. Ital. (1972)	430.92	423.55	426.46	433.26	551.59 (6/2)	354.93 (16/9)
MIB General (2/1/92)	849.0	835.0	840.0	853.0	1086.00 (5/2)	696.00 (16/9)
JAPAN						
Nikkei (16/5/49)	17287.12	17295.69	17260.08	17393.68	23801.18 (6/1)	14309.41 (18/8)
Tokyo SE (Topix) (4/1/68)	1300.41	1302.85	1304.08	1308.31	1763.43 (6/1)	1102.50 (18/8)
2nd Section (4/1/68)	1678.08	1680.14	1677.76	1673.70	2459.85 (6/1)	1502.77 (19/8)
MALAYSIA						
KLSE Composite (4/4/86)	635.56	637.61	636.40	641.51	660.35 (5/11)	546.63 (14/1)
NETHERLANDS						
CBS Tot Rtn Gen (End 1983)	291.7	291.2	290.6	288.9	314.90 (9/6)	274.00 (8/1)
CBS All Shr (End 1983)	196.4	196.0	195.6	194.4	215.50 (26/5)	189.70 (25/8)
NORWAY						
Oslo SE (Ind) (2/1/83)	666.08	667.06	670.13	666.50	772.74 (18/5)	532.43 (25/8)
PHILIPPINES						
Manila Comp (2/1/85)	1284.24	(c)	1279.54	1273.40	1580.95 (11/6)	1083.01 (17/3)
SINGAPORE						
SES All-Singapore (2/4/75)	379.10	379.37	379.85	383.11	416.99 (21/1)	351.41 (21/10)
SOUTH AFRICA						
JSE Gold (28/9/78)	864.0¥	885.0	905.0	863.0	1327.00 (21/1)	746.00 (10/11)
JSE Industrial (28/9/78)	4296.0¥	4268.0	4258.0	4229.0	4699.00 (4/6)	3936.00 (19/10)
SOUTH KOREA**						
Korea Comp Ex. (4/1/80)	616.21	635.28	638.93	650.20	691.48 (8/2)	459.07 (21/8)
SPAIN						
Madrid SE (30/12/85)	(c)	211.67	211.40	209.33	266.51 (28/2)	179.48 (5/10)
SWEDEN						
Affarsvariden Gen. (1/2/37)	871.4	864.4	882.6	885.20	1014.50 (11/5)	639.00 (5/10)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	871.7	865.9	862.0	858.7	883.40 (11/5)	748.50 (8/1)
SBC General (1/4/87)	647.3	643.9	641.0	639.5	682.30 (11/5)	596.40 (26/8)
TAIWAN**						
Weighted Price (30/6/66)	3755.77	3651.39	3614.08	3635.70	5391.63 (30/1)	3351.63 (26/9)
THAILAND						
Bangkok SET (30/4/75)	(c)	860.33	868.59	874.75	963.03 (5/11)	667.84 (19/5)
WORLD						
M.S. Capital Intl. (1/1/70) ($)	495.4*	493.2	492.7	493.4	542.10 (7/1)	467.50 (8/4)
Euro Top-100 (26/6/90)	856.36	851.97	855.90	853.68	976.55 (25/5)	772.52 (5/10)

**Saturday December 5: Taiwan Weighted Price: 3,727.95, Korea Comp Ex. 623.25.
¥ Subject to official recalculation. *Calculated at 15.00 GMT.

Base values of all indices are 100 except: Austria Traded, BEL20, HEX Gen., MIB Gen., CAC40, Euro Top-100, ISEQ Overall and DAX – 1,000, JSE Gold – 255.7, JSE 26 Industrials – 264.3 and Australia All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks

Monday, December 7, 1992

	Stocks Traded	Closing Prices	Change on day
NPN Steel	3.3m	298	+1
Kawasaki Steel	2.6m	269	+2
Isetan	2.2m	2,330	-20
NKK	2.0m	255	[illegible]
Citizen Watch	1.9m	915	+8
Nippon Carbon	1.7m	477	-26
Toshiba Corp	1.5m	620	+1
Mitsui Mining	1.4m	461	-4
Nissan Motor	1.3m	569	-3
Tokio M&F	1.3m	1,170	+20

NOTES – Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. (u) unavailable. # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. †-Hedio closed.

Price data supplied by Telekurs.

CROSSWORD

3 pm December 7

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1992 High	1992 Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
15¾	11	AAR Corp	0.48	4.0	19	308	12	11⅞	12	
28½	16	A L Labs A	0.18	0.8	142	654	22⅞	22½	22⅝	+⅛
68¾	52⅝	AMP Inc	1.52	2.7	21	718	57⅛	56¾	57	+½
80¼	54⅛	AMR				125969	64½	63⅛	63⅛	−2
2⅛	1⅛	ARX			12	21	1⅞	1⅞	1⅞	+⅛
53½	30½	ASA	2.00	6.0	22	244	33¾	33	33½	−¼
34¼	25¾	Abbott Lab	0.60	1.9	22	5504	31⅜	30¾	31⅛	+⅛
13⅞	10⅛	Abitibi Pr	0.40	3.6	5	11	11	11	11	+⅛
11⅝	10⅛	ACM Gd In x	0.94	8.7		234	10⅞	10¾	10¾	+1/16
10⅛	9⅛	ACM GvOpp x	0.73	7.8		99	9⅛	9⅛	9⅛	+0.74
9¾	6½	ACM Gvt Sp x	0.91	10.3		182	9	8⅞	8⅞	
11⅛	9⅞	ACM Gvt Se	1.01	10.0		177	10⅛	10⅛	10⅛	−⅛
10⅞	8⅝	ACM Man x	0.98	9.8		160	10⅛	10	10	+1/16
12⅞	8⅝	ACM Mmgd x	0.83	10.5		433	8¼	8¼	8⅞	+1/16
11¼	4¼	Acme Cleve	0.40	4.6	16	142	8¾	8¾	8¾	+⅛
6¾	3¾	Acme Elect			100	305	u6½	5⅛	6½	+1½
33¼	14⅞	Acuson			13	493	17¼	16⅞	17⅛	+⅛
27	16¼	Adams Expr	1.62	8.2	1	88	19⅞	19⅛	19⅞	+⅛
49¼	29½	Ad Micro x	3.00	6.8		121	44	43¾	44	+1
21½	7½	Ad Micro P	3.00	17.4		54877	17⅛	17⅛	17¼	+½
9⅛	4⅞	Advest Grp	0.16	2.8	12	63	6⅛	6⅛	6⅛	−⅛
42¾	33	Aegon ADR	1.35	3.3	7	22	41½	41¼	41½	+¼
48⅛	36	Aetna LI	2.76	5.7	14	1573	u48¼	47⅞	48¼	+½
12¾	8⅞	AHM A	0.24	2.1	15	478	11⅞	11½	11½	−⅛
34	24	Aflac	0.44	1.4	14	474	32	31¾	32	
19¾	13	Ahmanson	0.88	5.1	8	1310	17⅛	17	17⅛	+⅛
22½	4	Aileen Inc			16	1290	8¾	8¾	8¾	+¼
49½	38½	Air Pr Chm	0.88	1.8	19	809	48⅛	47¼	47⅛	−⅝
29¾	12½	Airborne Frt	0.30	1.6	182	415	18½	18⅛	18⅞	−⅛
21½	11¾	Airgas Inc			31	226	20¼	20⅛	20¼	+⅛
12⅞	8⅛	Airlease	1.68	15.4	8	68	11	10¾	10⅞	
104	99	AlaPw8.16 x	8.16	8.2		z100	101	100	100	−2
105	100¼	Alab 8.28C x	8.28	8.0		z100	102½	102½	103	−½
11⅛	10½	AlaPwDpPf x	0.87	8.0		14	10⅞	10⅝	10⅞	+⅛

Continued on next page

NYSE COMPOSITE PRICES

Continued from previous page

1992 High	Low	Stock	Div.	Yld. %	P/ E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
14½	13	Salomon Br	1.00	7.4		472	13⅞	13½	13½	-¼
[illegible]										
55	50½	Xerox4.125 x				2	53	53	54	+1
41½	24⅞	Xtra 1.94	1.94	4.8		123	40¾	40½	40½	
57⅝	28½	Xtra Corp	0.80	1.4	17	221	58⅞	56¼	58⅜	+½
30⅝	28¼	Yankee Egy	1.66	6.0	12	138	27⅞	27½	27¾	+⅛
1½	½	Zapata				43 114				
11⅜	6	ZenithElec				2 901	6¾	6½	6⅝	
19½	14½	Zenith Nat	1.00	6.0	8	230	16⅞	16⅝	16¾	-⅛
7½	6	Zonix Inc	0.83	12.5		49	6⅝	6½	6⅝	+⅛
13¾	10	Zero Corp	0.40	3.0	20	121	u13¾	13⅜	13⅜	-⅛
38	27¼	Zurn Ind	0.88	2.4	42	131	37⅛	36⅞	37⅛	-⅛
14⅛	12	Zweig Fund	1.12	8.6		169	13	12⅞	13	+⅛
11	9½	Zweig Totl x	0.88	8.6		393	10⅛	10	10	

Price data supplied by Telekurs.

Yearly highs and lows reflect the period from Jan 1, excluding the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

3 pm December 7

Stock	Div.	P/ E	Sls 100s	High	Low	Close	Chng
[illegible]							
Pegasus G	0.10	30	1263	14¼	14	14⅛	+⅛
Perini	0.80	17	37	17½	17¼	17½	
Pet Ht&P	1.14	11	z100	16½	16½	16⅝	-⅛
Phil LD	0.25	15	95	36¼	35¾	36⅛	+⅝
Pitway A x	1.10	18	9	33¾	33½	33½	+⅛
Ply Gem	0.12	23	375	12	10¾	11½	+⅝
[illegible]							

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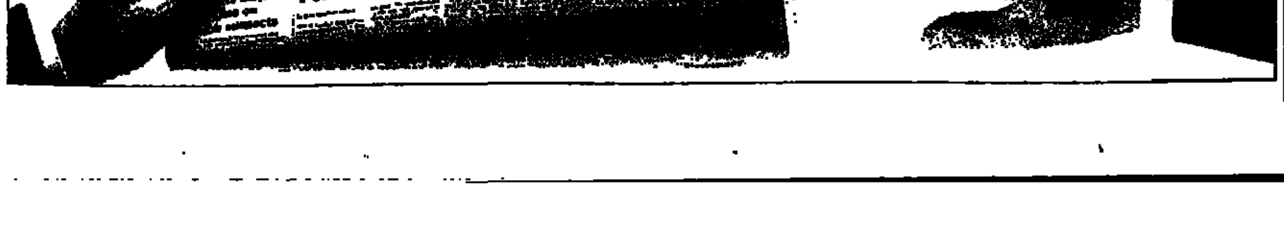

NASDAQ NATIONAL MARKET

3 pm December 7

Stock	Div.	P/ E	Sls 100s	High	Low	Last	Chng
[illegible]							
US Bancp	0.76	12	3459	25	24½	24¾	
US Energy		42	10	3⅝	3⅛	3⅛	
UST Corp	0.32	45	113	10	9¾	10	+⅛
Utah Med		20	331	17½	16¾	17	+¼
Utd Telev		27	4	29¼	28	29¼	+1⅛
Uttx		16	67	5½	5	5	-¼
- V -							
ValleyNat		75	500	57¼	56⅞	56⅞	-⅛
Valmont	0.26	55	39	u18¾	18¼	18¾	+½
Vagrd Cell		24	135	27	26½	26¾	-⅛
Verifone		23	704	22¼	21½	22¼	+¼
Vicor		29	1181	17	16½	17	+⅛
VicorpRst		23	399	24¼	23½	23⅞	+1⅛
VLSI Tech		44	4673	7⅝	7¼	7⅝	+¼
Volvo B	2.26	38	25	47⅞	46¾	47⅝	+⅞
- W -							
Warner En	0.08	22	242	u22	21	22	+½
Warmtech		50	850	3	2⅞	3	+⅛
WashMutSB	0.66	10	1556	31⅞	30⅞	31⅞	+1
WestFedSL	0.64	11	296	28½	28	28½	+½
WatsnIndA x	0.28	18	17	48½	47¾	48½	+⅜
Wausau PM	0.34	17	398	45½	44¼	45½	+⅜
WD-40	1.80	17	57	42¼	41¼	42¼	+1
Weltek		3	361	5¼	5	5	
West One	1.04	12	83	48½	47¾	47¾	-½
WstnPubl		24	381	22⅛	21⅛	21⅝	-¼
Wst SealA		19	470	8¾	8	8½	-¼
WillametteInd x	0.64	23	1480	38	37	37½	+¼
WmsSonoma		74	344	11¾	11¼	11¼	-⅜
Wiser Oil x	0.40	468	80	14⅛	14	14	
WoldenI x	0.28	16	58	u23¼	22½	23	-¼
Wolv Expl		0	80	⅛	d1/16	1/16	-1/16
WrldExMBA			300	1/16	d1/32	1/32	
Worthgtn x	0.48	24	1610	22⅞	21½	22⅞	+⅝
WPP Group	1.11	1	3206	1 7/16	1 5/16	1 5/16	-1/16
Wyman-Gdn	0.40	1	317	5⅜	5⅛	5⅛	-¼
- X - Y - Z -							
Xilinx		23	2576	21	20¾	21	+⅛
Xoma Corp		5	2401	11¾	11½	11⅝	+⅛
Yellow Fr	0.94	21	470	28⅝	28	28⅛	-⅝
York Rsch		7	858	7⅛	7	7⅛	-⅛
ZionsUtah	1.44	12	159	72	70¾	72	+¼

EUROPEAN AIRPORTS: MANCHESTER

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FT SURVEYS

AMERICA

Rosy outlook lifts Dow again

Wall Street

GROWING confidence about the economy continued to feed through into share prices on US stock markets, *writes Patrick Harverson in New York.*

By 1 pm the Dow Jones Industrial Average was up 11.08 at 3,299.76, near its high for the morning. The more broadly based Standard & Poor's 500 was also firmer at midsession, up 1.45 at 433.51, while the Amex composite eased 0.88 to 394.07 and the Nasdaq composite added 2.52 at 664.12. Turnover on the NYSE was 131m shares by 1 pm, and rises outpaced declines by 974 to 672.

Although there were no new economic figures out yesterday, share prices made further gains as investors continued to buy stocks in the wake of last week's better-than-expected November employment report, and in anticipation of an improvement in economic growth during 1993.

Market sentiment was aided by the reaction of Treasury investors to recent good economic news. Instead of selling bonds, as they would normally do, investors have been buying government securities because they believe that the stronger the economy, the less chance there is of a new Democratic administration introducing a deficit-widening package of aggressive fiscal measures to stimulate the economy.

Investors were also encouraged by the news that President-elect Bill Clinton has chosen Senator Lloyd Bentsen to be his new Treasury secretary.

Among individual stocks, American Express rose $1⅛ to $24⅞ as investors responded positively to confirmation over the weekend that the company's chairman and chief executive, Mr James Robinson, will resign his post next year after 15 years at the helm of the financial services group.

ICN Pharmaceuticals dropped $⅞ to $7⅞ after the group's SPI Pharmaceuticals subsidiary cut its quarterly dividend by more than 20 cents and warned that it would not meet analysts' estimates for the fourth quarter.

Gtech Holdings jumped $2⅞ to $37⅛ on the news that it had won the contract to supply the on-line system for the New York State lottery.

Family Dollar Stores fell $¾ to $22⅛ on news of a 4.8 per cent fall in same-store sales during November. Other retailers were mixed at the start of what is the second full week of the Christmas shopping season. JC Penney firmed $½ at $77⅛. Woolworth was steady at $33, K Mart edged $⅛ higher to $26⅝, Federated Department Stores eased $¼ to $18⅞ and Neiman Marcus slipped $¼ to $17⅝.

On the Nasdaq market, Kirschner Medical jumped $1⅞ to $9⅝ on the news that Figgie International will buy a 20 per cent stake in the company for $12 a share as part of a pact that also involves a reciprocal distribution agreement. Figgie fell $¼ to $16¼ after the deal was announced.

Canada

GAINS on Wall Street and a round of prime lending rate cuts kept Toronto stocks firm at midday but they were off early highs as weakness in gold shares weighed on sentiment. The TSE-300 index rose 3.0 to 3,292.4 in volume of 18.3m shares valued at C$142.4m. Advances led declines by 219 to 233 with 260 unchanged. The gold index was 46.0 lower at 5,070.8 by midsession.

Among active stocks, Bombardier's B shares firmed C$⅝ to C$12⅝ following news late last week that two of its overseas divisions had won new orders.

SOUTH AFRICA

INDUSTRIAL and mining shares closed stronger on good local demand while gold shares eased on profit-taking after last week's gains. Trade was thin.

The gold index fell 21 to 864 and the overall index moved up 9 to 3,240. The industrial index added 27 to 4,295.

The diamond giant De Beers recovered some of its recent losses, rising 75 cents to R58. Gencor added 5 cents to R9.80.

The food group Tiger Oats was up 25 cents at R46.25 and SA Breweries added R1 to R57.

Among gold shares, Dries lost R1 to R41 and Kloof fell 50 cents to R29.15.

EUROPE

Switzerland shrugs off 'No' vote

ZURICH yesterday shrugged off the rejection by Swiss voters in Sunday's referendum to join the European Economic Area (EEA), *writes Ian Rodger in Zurich.*

"We were all braced for a very bad day. Maybe there will be a bit of a correction tomorrow, but it seems that the Christmas rally is upon us," said Mr Silvan Trachsler, head of research at Union Bank of Switzerland.

But many analysts believe that the value of most Swiss equities will be hurt in the short- to medium-term by the people's decision to remain outside the expanded European single market.

"I cannot see how this is going to make things better for any Swiss shares," said Mr Stephan Meier, head of Swiss equity investment research at Swiss Bank Corporation.

Mr Trachsler agrees: "In the long term, Switzerland will have problems being outside the EEA. Growth will be lower and unemployment will be higher."

But yesterday, the widely anticipated, negative reaction to the "No" vote did not materialise. The Swiss franc opened lower against the D-Mark but soon recovered to close at Friday's level of SFr0.896 to the German currency. The Swiss Index of leading shares was up 19.5 at 1,954.5, with advances occurring on a broad front. Among international stocks, Roche PC's rose SFr30 to SFr3,930 and Nestlé registered shares put on SFr15 to SFr1,085.

The all-share Swiss Performance Index was up 5.4 at 1,164.19, discrediting the view expressed in advance of the vote that there would be an exodus from the vulnerable second-tier, manufacturing shares to blue chips in the event of a "No" vote.

The only immediate victim of the "No" vote was Swissair, which stands to be the only major airline in Europe that will not participate automatically in the planned liberalisation of air traffic within the EEA. Swissair bearers fell SFr35 to SFr445. Some machinery exporters were also hit: Sulzer registered shares fell SFr4 to SFr546, Georg Fisher bearers lost SFr25 to SFr680 and Von Roll bearers lost SFr30 to SFr570.

Analysts suggested that there had been a lot of short-selling last week in anticipation of a rejection of the treaty, and these positions had to be covered quickly yesterday morning when it became apparent that the market had fully discounted the result.

Mr Pierre Tissot, an analyst with the Geneva bankers Lombard, Odier, said that was a plausible interpretation of the performance of the Union Bank of Switzerland bearer share which opened at SFr810, SFr7 below Friday's close, but finished SFr5 ahead at SFr822.

Mr Tissot argued that banks' profits too would be affected if the rejection of the EEA prolonged the recession in the Swiss economy.

Analysts' main concern was for export-oriented manufacturers with substantial production bases in Switzerland, companies such as Sulzer Brothers, Georg Fisher, Landis & Gyr and Von Roll.

Their Swiss-made products would now have to pass approvals in each European country while all their European competitors would have automatic entry. An analyst at James Capel said that the strength of the rejection would make the boards of manufacturing companies look closely at moving out at least part of their activities.

"The Swiss people may eventually change their minds, but these companies cannot take the risk," he said.

Other Efta stock markets took Switzerland's "No" to closer ties with the European Community in their stride, *writes Our Markets Staff.*

VIENNA, little changed on the day, saw low volume ahead of today's holiday. Activity was also stunted by a break-down in the electronic trading system of the OTOB futures and options exchange. The ATX index rose 1.44 to 755.75.

OSLO closed mostly higher with biggest gains coming in cyclical stocks. The all-share index rose 0.85 to 376.21 in trading worth NKr225.8m. Elkem A shares added NKr2 to NKr25 while Norske Skog's A shares finished NKr5 higher at NKr74. Bergesen A shares added NKr4 to NKr102.5.

FT-SE Actuaries Share Indices — THE EUROPEAN SERIES

December 7 Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1053.77	1055.47	1056.60	1057.64	1058.56	1058.93	1057.38	1056.02
FT-SE Eurotrack 200	1136.92	1137.09	1138.55	1143.43	1141.03	1139.76	1139.48	1137.52

	Dec 4	Dec 3	Dec 2	Dec 1	Nov 30
FT-SE Eurotrack 100	1052.78	1055.11	1052.11	1056.79	1057.75
FT-SE Eurotrack 200	1133.53	1136.09	1130.96	1135.62	1132.14

Base value 1000 (26/10/90) Highday: 100 - 1059.15; 200 - 1145.44 Lowday: 100 - 1053.77 200 - 1135.53

STOCKHOLM recovered after a weak opening, as the dampening effect of the Swiss "No" quickly wore off. The Affärsvärlden general index rose 7.0 to 871.4 as turnover dropped sharply to SKr451m from SKr727m.

The ball-bearings group SKF, which rose last week on takeover speculation, slipped SKr1.5 to SKr78.50 on profit-taking.

HELSINKI closed higher in active trading, as the HEX index closed 13.1 or 1.5 per cent higher at 870.0 in turnover of FM140.1m.

FRANKFURT largely ignored the Swiss "No" vote and was mildly encouraged by some fresh corporate news. The DAX index put on 3.16 to 1,525.32 as turnover shrank to DM3bn from DM4.4bn.

Among the banks, Dresdner was the latest to report 10-month results, in line with expections and the shares improved DM1 to DM353.50. The market now awaits Deutsche's figures, due today, which are forecast to be flat to slightly lower. The shares were up DM2 at DM667. Bayerverein, which also reported good 10-month results, rose just 50 pfg to DM418.50.

Degussa, up DM7.30 at DM334.50, surprised the market with better-than-expected earnings in fiscal 1991/1992, with the pharmaceuticals division performing well.

Other chemical stocks were unmoved by the news, with Hoechst down DM2.50 at DM233.60, BASF 10 pfg weaker at DM207.40 and Bayer down 30 pfg at DM254.50 as the outlook for 1993 remains depressed.

PARIS focused on special situations as the CAC-40 index ended 6.93 higher at 1,788.61 in low turnover of FFr1.9bn.

Rhône-Poulenc CIs rose FFr14 to FFr506 in response to news late last week that the government had postponed its plans to sell a substantial minority stake in the chemicals group because of poor market conditions.

Shares in Club Méditerranée rose FFr6.30 to FFr345 following news that it returned to profit in the year ended October 31.

Havas closed at the day's low of FFr421, down FFr1350 or 3.1 per cent, after its chairman Pierre Dauzier told shareholders that he saw no improvement in the media group's markets in 1993 and expects 1993's profit to be around the same as in 1992.

Elf was steady at FFr346. After the close, the oil company's chairman said he could not rule out a 35 per cent drop in profit in 1992.

MILAN saw some privatisation candidates rise sharply in a largely deserted market due to the semi-holiday in Milan yesterday and today's national holiday. The Comit index rose 7.37 to 430.92 in turnover estimated at L120bn after Friday's L178.5bn.

State-controlled stocks were lifted by prime minister Giuliano Amato's statement late on Friday that the treasury minister Piero Barucci was heading the government team on privatisations, thereby taking Mr Barucci's side in a recent dispute with the industry minister on privatisations.

Credito Italiano added L180 or 6.5 per cent to L2,950 while Assitalia put on L539 or 7.1 per cent to L8,099.

AMSTERDAM lost ground in the afternoon as the dollar weakened, while the lack of corporate news kept interest low. The CBS Tendency index closed up 0.2 at 105.8. Unilever advanced Fl 1.60 to Fl 186.30 and Elsevier was Fl 1 firmer at Fl 118.10.

ASIA PACIFIC

Nikkei lower ahead of BoJ survey

Tokyo

SHARE prices moved marginally lower in quiet trading ahead of the release of the Bank of Japan's quarterly business survey and the settlement for December futures and options contracts at the end of the week, *writes Emiko Terazono in Tokyo.*

The Nikkei average fell 88.57 to 17,207.12 after a high of 17,326.38 and a low of 17,175.13 in the morning. The index moved up in early trading on buying by public funds but hardly moved in the afternoon as investors took to the sidelines.

Volume fell from 179m shares to 140m, the lowest since November 16. Public funds and companies, purchasing for their employee stock ownership plans, were the only participants noted. Declines led advances by 573 to 344 with 183 issues remaining unchanged. The Topix index of all first section stocks lost 2.44 to 1,300.41 and in London, the ISE/Nikkei 50 index rose 0.56 to 1,050.92.

Investors did not react to a fall in money market rates. The unsecured overnight call rate, strongly influenced by Bank of Japan's money market operations, fell to 3.84375 per cent, the lowest since January 1989. Yields on three-month certificates of deposit fell to a record low of 3.70 per cent. Traders said last week's cut in the short-term prime rate by Sanwa Bank prompted the easing.

Large-capital, interest-rate sensitive stocks rose slightly on the lower interest rates. Nippon Steel was the most active issue of the day, rising Y1 to Y296, while Kawasaki Steel also gained Y1 to Y289.

Car stocks were higher on hopes of an early economic recovery in the US. Toyota Motor gained Y10 to Y1,440 and Honda Motor rose Y40 to Y1,340.

Isetan, the department store, plunged Y250 to Y2,350. Traders said Shuwa, the financially troubled real estate and stock speculator, was liquidating its stake in Isetan.

Nihon Unisys fell Y20 to Y1,120 on reports that the Securities and Exchange Surveillance Commission, the stock market watchdog set up last July, had launched a raid on Teishin Fudo, a stock speculator group, for allegedly cornering Nihon Unisys shares. Sumitomo Realty and Development, a leading real estate developer whose affiliate, Sumitomo Fudosan Finance, had lent some Y55bn to Teishin, retreated Y17 to Y543.

In Osaka, the OSE average fell 37.91 to 18,632.16 in volume of 11.1m shares.

Roundup

HONG KONG was the worst performer last week, according to the FT-A World Indices, falling 12.9 per cent in local currency terms. In its weekly report, Hoare Govett says that although the local economy remains strong there is clearly an unpredictable element to the market because of the state of political relations between Britain and China. It notes that historically, such skirmishes have produced p/e levels of 8 or 9 times, but that the market, now on a 1992 p/e of 11.2 and 9.4 for next year, is still some way off these levels.

Yesterday, the market showed some signs of resistance to the political tension. The Hang Seng index closed 76.35 lower at 5,191.35, but was off the day's low of 5.126, in turnover of HK$2.1bn.

The most active issue was HSBC Holdings, down HK$1 at $54, while Hang Seng Bank eased 75 cents to HK$46.75 and Cheung Kong lost 50 cents to $18.10.

Other markets in the region were mixed. Bombay was closed because of violence following the storming of an ancient mosque in Ayodhya.

AUSTRALIA was firmer in quiet trading. The All Ordinaries index rose 9.7 to 1,444.7 in turnover of A$209.3m. Among active issues, CSR gained 7 cents to A$3.90 after announcing the appointment of a new managing director. BHP added 28 cents to A$11.70, while News Corp climbed 40 cents to A$29.60.

Banks were mixed, with Westpac gaining 4 cents to A$2.96 on the appointments of Mr Kerry Packer and Mr Al Dunlap, the managing director of Consolidated Press Holdings, to the board. The shares were up 4 cents at A$2.96. National Australia rose 6 cents to A$7.43 and ANZ lost 1 cent to A$2.59.

SEOUL fell back as further evidence emerged that Hyundai Group companies were funding the political campaign of Chung Ju-yung, the group's founder, who is standing in the presidential elections on December 18. Hyundai Motor fell Won1,000 to Won20,600 as the composite index shed 7.04 to 616.21.

MANILA advanced on good macro-economic news over the weekend and the composite index closed up 4.70 at 1,284.24 in combined turnover of 216m pesos.

Some analysts said that publication of lower November inflation data could support the market this week.

KUALA LUMPUR declined on profit-taking. The composite index weakened 2.05 to 635.56 in turnover of M$346m.

The debut of the financial services group, Malaysian Industrial Development Finance, generated the day's most active dealings. MIDF closed at M$3.18, up 68 cents from the offer price.

NEW ZEALAND fell back as both Telecom and Lion Nathan went ex-dividend. The NZSE-40 index lost 5.32 to 1,512.76 in turnover of some NZ$24m. Telecom rose a net 1.25 to NZ$2.40 while Lion Nathan fell a net 3 cents to NZ$3.90.

TAIWAN advanced in active trading with the weighted index putting on 27.82 to 3,755.77 in turnover of T$12.8bn.

SINGAPORE eased, and trading concentrated on the OTC market. The Straits Times Index fell 2.57 to 1,440.13 in turnover of S$113m.

JAKARTA's index slipped 1.09 to 279.36 in dull trading. Astra was the most active issue, up R125 to R8,625. Banks eased with Bank Bali and Bank Duta both down R50 to R3,350 and R2,325 respectively.

MARKETS IN PERSPECTIVE

	% change in local currency †				% change sterling †	% change in US $ †
	1 Week	4 Weeks	1 Year	Start of 1992	Start of 1992	Start of 1992
Austria	-0.19	-1.87	-17.96	-12.79	-0.33	-17.02
Belgium	+0.01	+0.83	+0.44	-1.75	+12.45	-6.39
Denmark	+0.65	+4.69	-25.71	-25.38	-14.38	-28.73
Finland	+2.47	+6.69	+12.26	+14.71	+11.94	-6.82
France	+1.57	-0.40	+3.49	+0.77	+15.69	-3.69
Germany	+0.17	+2.11	-6.08	-6.26	+6.97	-10.95
Ireland	+1.21	+6.50	-13.60	-15.56	-3.67	-19.99
Italy	-3.87	-1.35	-12.76	-12.80	-14.09	-28.48
Netherlands	+1.30	+1.48	+4.74	+4.51	+19.64	-0.41
Norway	+7.09	+11.28	-7.62	-10.09	-1.00	-17.59
Spain	-1.96	+8.13	-12.29	-12.66	-11.34	-26.19
Sweden	-1.81	+19.08	+12.41	+10.35	+7.73	-10.32
Switzerland	+1.87	-0.39	+15.04	+13.31	+28.66	+7.09
UK	+0.17	+2.38	+13.48	+10.86	+10.86	-7.71
EUROPE	+0.27	+2.15	+4.48	+2.88	+9.60	-8.76
Australia	-1.38	+0.70	-14.02	-15.90	-7.90	-23.33
Hong Kong	-12.91	-17.50	+23.47	+19.46	+44.16	+20.00
Japan	-0.41	+2.32	-23.56	-23.04	-7.48	-22.98
Malaysia	-0.47	-2.42	+24.24	+18.92	+53.06	+27.42
New Zealand	-2.08	+11.05	-2.30	-5.96	+8.18	-9.62
Singapore	+0.04	+3.00	-2.47	-6.82	+10.60	-7.93
Canada	+0.51	-0.59	-5.73	-7.56	+0.57	-16.28
USA	+0.36	+3.40	+14.03	+3.92	+24.83	+3.92
Mexico	+0.27	+8.00	+22.20	+16.69	+36.98	+14.03
South Africa	+3.23	+7.32	-11.50	-9.62	-26.64	-38.94
WORLD INDEX	-0.08	+2.37	-1.48	-5.13	+9.88	-8.53

† Based on December 4th 1992. Copyright, The Financial Times Limited, Goldman, Sachs & Co. and County NatWest Securities

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS — Figures in parentheses show number of lines of stock	FRIDAY DECEMBER 4 1992: US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	THURSDAY DECEMBER 3 1992: US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX: 1992 High	1992 Low	Year ago (approx)
Australia (68)	115.65	+0.4	110.09	91.27	96.03	111.04	+0.0	4.37	115.21	109.04	90.78	94.67	110.99	153.58	108.18	148.27
Austria (19)	138.18	-0.7	131.53	109.06	114.73	114.43	+0.1	2.47	139.14	131.69	109.44	114.34	114.30	186.70	127.66	166.58
Belgium (42)	135.11	-0.8	128.62	106.62	112.18	109.29	-0.1	5.64	136.24	128.94	107.34	111.94	109.36	152.77	134.06	135.29
Canada (113)	114.11	+0.7	108.62	90.05	94.73	105.51	+0.7	3.21	113.36	107.28	89.31	93.14	104.82	142.12	111.36	136.12
Denmark (34)	190.41	-0.8	181.25	150.27	158.09	160.17	-0.5	1.70	192.01	181.72	151.25	157.77	160.34	272.94	181.70	258.49
Finland (15)	72.70	+1.1	69.20	57.38	60.36	77.67	+1.2	1.82	71.90	68.05	56.65	59.06	76.78	89.80	52.64	77.34
France (99)	144.89	-1.8	137.92	114.34	120.29	123.24	-0.8	3.66	147.30	139.41	116.06	121.03	124.25	168.75	136.93	138.82
Germany (64)	104.48	-1.6	99.46	82.46	86.74	86.74	-0.6	2.62	106.17	100.49	83.67	87.24	87.24	129.69	102.51	112.37
Hong Kong (53)	211.64	+5.5	201.45	167.02	175.73	210.41	+5.5	4.28	200.65	189.90	158.09	164.86	199.50	262.28	178.36	172.25
Ireland (16)	134.27	-0.7	127.82	105.97	111.48	114.25	+0.2	4.79	135.15	127.91	106.49	111.05	114.00	173.71	122.98	156.48
Italy (77)	53.91	-0.9	51.32	42.55	44.76	56.39	-0.1	3.88	54.41	51.49	42.87	44.71	56.44	80.86	47.47	70.89
Japan (472)	104.61	-0.2	99.58	82.56	86.86	82.56	-0.1	1.02	104.84	99.22	82.61	86.16	82.61	140.95	87.27	131.31
Malaysia (69)	272.91	+0.2	259.78	215.37	226.58	268.91	+0.4	2.48	272.24	257.66	214.50	223.70	265.90	282.42	212.49	204.06
Mexico (18)	1586.36	+1.2	1510.06	1251.95	1317.12	5397.60	+1.1	1.11	1568.30	1484.29	1235.72	1288.67	5339.57	1789.77	1185.84	1320.81
Netherland (25)	152.05	-0.6	144.74	120.00	126.25	124.46	+0.3	4.57	153.03	144.84	120.58	125.75	124.12	165.70	147.88	145.33
New Zealand (13)	42.32	-0.3	40.28	33.40	35.14	43.42	-0.5	5.33	42.45	40.18	33.45	34.89	43.62	48.52	37.39	46.01
Norway (22)	147.34	-1.3	140.25	116.28	122.33	130.14	-0.7	1.86	149.31	141.31	117.64	122.69	131.07	192.95	126.05	169.84
Singapore (38)	202.28	-0.2	192.55	159.62	167.93	152.81	-0.2	2.16	202.59	191.73	159.63	166.46	153.05	209.63	179.65	205.43
South Africa (60)	151.99	+2.0	144.66	119.94	126.19	156.35	+0.3	3.28	149.07	141.09	117.46	122.49	155.84	263.60	134.21	202.03
Spain (46)	115.44	-0.2	109.89	91.11	95.85	100.05	+0.2	8.01	115.67	109.48	91.15	95.05	99.90	161.72	107.10	147.48
Sweden (31)	162.44	+1.7	154.63	128.20	134.88	164.01	-1.7	2.39	165.25	156.40	130.21	135.79	166.78	200.28	149.69	170.79
Switzerland (50)	107.49	-0.9	102.32	84.83	89.26	95.53	+0.6	2.24	108.49	102.68	85.49	89.16	94.94	122.27	95.98	95.27
United Kingdom (227)	171.04	-0.9	162.81	134.97	141.99	162.81	-0.3	4.55	172.60	163.35	135.98	141.81	163.35	200.07	161.88	172.57
USA (522)	176.54	+0.6	168.05	139.33	146.58	176.54	+0.5	2.89	175.71	166.30	138.45	144.38	175.71	176.54	160.92	154.49
Europe (779)	134.75	-1.1	128.27	106.34	111.88	120.84	-0.3	3.92	136.21	128.91	107.32	111.93	121.21	156.88	131.31	138.85
Nordic (102)	148.44	-1.4	141.30	117.15	123.25	134.90	-1.1	2.14	150.50	142.43	118.58	123.66	136.38	188.52	141.24	175.78
Pacific Basin (713)	108.73	+0.1	103.50	85.81	90.28	87.51	+0.2	1.38	108.65	102.83	85.61	89.28	87.33	141.97	93.70	132.66
Euro-Pacific (1492)	119.28	-0.5	113.52	94.11	99.01	100.91	+0.0	2.54	119.80	113.38	94.39	98.43	100.94	145.21	113.80	135.38
North America (635)	172.67	+0.6	164.36	136.28	143.38	171.72	+0.5	2.90	171.84	162.64	135.42	141.23	170.90	172.67	158.70	153.28
Europe Ex. UK (552)	113.19	-1.2	107.74	89.34	94.00	98.10	-0.3	3.44	114.56	108.42	90.28	94.15	98.38	132.98	111.33	118.20
Pacific Ex. Japan (241)	149.18	+2.1	142.00	117.75	123.87	137.18	+2.0	3.88	146.06	138.24	115.10	120.03	134.45	175.31	146.06	149.97
World Ex. US (1683)	120.36	-0.4	114.56	94.99	99.93	102.95	+0.0	2.56	120.79	114.32	95.19	99.26	102.95	146.91	115.99	137.49
World Ex. UK (1978)	135.25	+0.1	128.75	106.75	112.31	121.88	+0.3	2.48	135.11	127.89	106.47	111.04	121.56	150.58	127.21	139.29
World Ex. So. Af. (2145)	138.37	+0.0	131.72	109.21	114.90	125.19	+0.2	2.69	138.41	131.00	109.07	113.74	124.93	153.05	130.04	141.39
World Ex. Japan (1733)	157.48	+0.1	149.90	124.29	130.77	150.46	+0.3	3.28	157.38	148.95	124.02	129.34	150.05	165.40	151.93	148.31
The World Index (2205)	138.39	+0.0	131.70	109.20	114.88	125.50	+0.2	2.70	138.37	130.96	109.03	113.71	125.25	153.70	130.68	142.20

Latest prices were unavailable for this edition.

DERIVATIVES

The industry hopes that the many studies and investigations currently being undertaken by regulators are part of a drive to deepen their understanding of the market, rather than a prelude to tighter regulatory controls, write **Tracy Corrigan and Patrick Harverson.**

Ever more complex

IN THE past 10 years, the most creative engineering in the world of international finance has been concentrated in the huge and rapidly growing market for derivative products.

Futures, options, swaps and related instruments today make up an estimated $10,000bn in investments traded both over-the-counter (OTC) and on regulated exchanges.

Many exchange-traded futures and options contracts are now more liquid than the cash markets on which they are based.

Innovative OTC derivative products sold directly by banks and securities houses to companies or fund managers, meanwhile, are rapidly being subsumed into the mainstream. This has fuelled the development of ever more complex variations as intermediaries, searching for higher spreads in an increasingly competitive environment, no longer offer just straightforward options but a seemingly endless variety of twists, such as caps and range-forwards, which slightly alter the degree of exposure to different market movements.

The technology used in the derivatives market is often applied throughout a range of underlying products. Swap technology, allowing counterparties to exchange interest-rate and currency flows, is now being applied to the equity, commodity, and insurance markets.

Although the exchange-traded business is more mature than the OTC business, the two halves of the derivatives market are interdependent. Banks which sell OTC products use exchange-traded markets to offset the risk they take on when writing options or swap agreements; so without the development of efficient and active futures trading, the massive growth in over-the-counter derivatives would have stalled.

The OTC market's growth could not have happened, either, without the information technology revolution. The advent of the desktop personal computer has allowed investment bankers to construct complex products and transactions that could never have been designed, priced or monitored under the old system of writing trades into book ledgers.

The technological changes came at a time – the early and mid-1980s – when banks and securities houses were looking to diversify. *Tougher capital* requirements for banks, imposed by international regulators, forced them to turn from their traditional lending business, where margins had been squeezed, while securities firms were looking for ways to move away from their reliance on their broking and underwriting businesses.

Liffe: volume rose by 84 per cent in the first half of the year *See Page 3*

The pool of derivatives users has grown rapidly. While only the biggest multinationals were involved with derivatives in the early days, now smaller corporations, pension funds, insurance companies, money managers and small to mid-sized banks are all jumping on the bandwagon.

They have become familiar with the concept of using derivatives to hedge risk, balance portfolios and participate in new markets that might normally be outside their reach.

Yet the dynamic growth of the OTC derivatives market – the International Swap Dealers Association (Isda) says it now totals $4,300bn in outstanding contracts (compared with $866bn just five years ago) – has created new types of risk and exposure for financial institutions.

Bank and securities industry regulators find themselves in the rather uncomfortable position of supervising a business they do not always fully understand, and assessing asset-like instruments that do not show up on participants' balance sheets.

There are also substantial variations in the way intermediaries handle risk, from the most sophisticated players using complex computer models, to some of the less sophisticated, newer participants, who may limit their use to more *straightforward transactions*, so that risk is more easily managed.

There is also a fear among regulators that techniques applied to a broad variety of underlying markets ties markets more closely together, increasing the potential for shock in one part of the global financial system to be quickly transmitted to other parts.

Mr Malcolm Basing, chairman of Isda, however, thinks those fears are overdone. He says: "I'm at a loss to understand why people think that. If anything, markets are now more open between countries, which reduces risk."

The authorities are taking an especially close look at the practice of netting, a risk-reduction method whereby the payment flows involved in a large number of derivatives contracts between regular *counterparties are* "netted out" to produce one single measure of credit exposure.

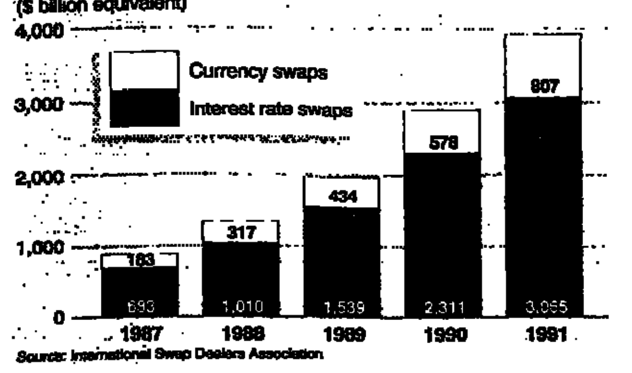
Although netting is legally recognised in the US, with Isda providing an all-purpose master document for counterparty contracts, elsewhere the legal status of netting remains uncertain. This frustrates the market's biggest players, who believe that netting not only reduces counterparty credit risk but also frees up funds for expansion, because it lowers the amount of capital that banks and securities houses have to set aside under international capital adequacy rules.

The industry hopes that the many studies and investigations into the business currently being undertaken by regulators are part of a drive to deepen their understanding of the market, and not a prelude to *tighter* regulatory controls on intermediaries and users of derivatives.

One of the main problems with the derivatives market is in coming to terms with its size and the level of risk involved in transactions. The trillion-dollar figure that catches the interest of regulators and politicians covers the notional amount of derivatives contracts outstanding, and is useful only as a guide to business activity and the growth of the market.

Swap market growth

Outstanding notional principal of interest rate and currency swaps ($ billion equivalent)



Source: International Swap Dealers Association

Derivatives exposure ($bn)

The top eight US commercial banks

	Total notional value of contracts originated	Total replacement value of contracts
Citicorp	1,426	23.5
Chemical Banking	1,296	19.4
J.P. Morgan	1,014	20.0
Bankers Trust	958	21.6
Chase Manhattan	837	16.7
Bank America	795	18.4
First Chicago	387	7.2
Continental Banking	136	2.7

Figures refer to exposure and contracts as of June 30,1992

Source: Standard & Poor's

Bankers say that derivatives risk is best measured by calculating net replacement value – the cost of replacing netted contracts if a counterparty defaults. When measured by net replacement value, banks' exposure to derivatives risk drops dramatically to levels below comparable exposures to traditional lending activities. The ratings agency Standard & Poor's has calculated that the net replacement value of the $3,400bn of total outstanding swap contracts is slightly more than $90bn, or just 2.6 per cent.

The problem with net replacement value accounting, however, is that derivatives are dynamic – the risk profile of each transaction changes constantly as markets and prices move. Intermediaries *mark their books to market at* the end of each day, but those snapshots of dealers' positions can be redundant within minutes. It is the fluid nature of the business that worries regulators, who fear intermediaries' risk measurement and risk management systems and procedures cannot keep tabs on the constantly shifting sands of derivatives.

The more mature exchange-traded markets, meanwhile, also continue to expand. Although the big US exchanges in Chicago have seen their market share dwindle, because of competition from other exchanges and from the OTC market, growing numbers of western European countries now have their own futures exchanges, and new markets are being set up in developing countries, such as Latin America.

Increasingly sophisticated information technology may cause a gradual shift away from the traditional trading of futures in trading pits. Last June, Globex, the round-the-clock futures trading system developed by the Chicago Board of Trade, the Chi*cago Mercantile Exchange* and Reuter, was launched after five years in development, at an estimated cost of $80m. So far, the Matif in Paris is the only European exchange to have signed up, but others, including the London International Financial Futures and Options Exchange, are in advanced discussions.

Mr Leo Melamed, head of Globex, hailed the debut as "the dawn of a new era". Even if it does not fulfil expectations, Globex has sparked a reassessment of the future of exchanges by reviving ambitions to form links between exchanges, and for cross-listing of products.

Whether it be new products such as insurance and pollution derivatives, or new trading systems like Globex, one of the chief characteristics of the exchange and OTC derivatives business is innovation. With large pools of users among companies and investment managers still to be tapped, and sizeable profits to be earned, the pace of growth is unlikely to slow significantly over the next few years.

IN THIS SURVEY

Volatility calls for ingenuity...

... new products for a different kind of market

DERIVATIVES 2

Patrick Harverson explains why the regulators' eyes are fixed firmly on the OTC market

It's time to know what's going on

HORDES OF government regulators across the globe are grappling with the question of how best to handle supervision of the over-the-counter financial derivatives market. Rarely can so many different agencies have taken up the same subject with so much enthusiasm.

Among the institutions that have launched formal and informal studies of the market during the past year are:

The New York Federal Reserve; the Securities and Exchange Commission (SEC), the Commodity Futures Trading Commission (CFTC), and the General Accounting Office, all US watchdog agencies; the Bank for International Settlements (BIS), in Basle, which is working alongside the International Organisation of Securities Commissions (Iosco) on capital adequacy and accounting issues; the Bank of England; and the Group of Thirty, a consultative group of top bankers, financiers and academics from leading industrial nations.

Why such keen interest in derivatives? One answer is that the over-the-counter market for financial instruments such as swaps, options, and forward rate agreements is lightly regulated by modern standards, particularly considering its size and rapid growth. Although the activities of individual players are monitored by their own supervisory bodies (US banks, for example, are answerable to the New York Fed, and securities houses to the SEC), no one body is in charge of the entire market.

Opponents of derivatives in the US have tried to force the market into the domain of a regulatory body, but their best recent attempt at doing so failed two months ago when the Futures Trading Practices Act 1992 was passed. The act reaffirmed that swaps (which make up the bulk of over-the-counter derivatives business) are not futures contracts, and therefore do not have to be traded on established exchanges and are not regulated by the CFTC.

Perhaps the most compelling explanation for the rash of regulatory inquiries is the perception, formulated over the past couple of years, that the regulatory authorities do not entirely know what is going on.

While it is wrong to suggest that derivatives instruments are so complex that regulators cannot understand them, officials privately admit that the pace of innovation in the business means they have struggled to keep up with the market's growth, and its implications for risk in an increasingly global financial system.

Moreover, it is the job of regulators to look at financial risk and consider how the system would cope in the event of a "doomsday" scenario of confusion, chaos and collapse. In the case of the derivatives market, the regulators want to know what would happen if one of the biggest players in the market were to go under, creating a massive gridlock throughout the system as its many counterparties struggle to replace their defaulted contracts.

They want to know what would happen if one of the biggest players were to go under

The problem with derivatives is that no one is entirely sure what would happen. So regulators are hurriedly trying to learn about the risks of the business (which is why J.P.Morgan held a series of well-attended derivatives seminars for regulators during the summer).

The main risk that concerns them is credit risk – what happens when a counterparty to a contract defaults on its payments. In the US, the participants in the market have gone furthest towards addressing credit problems by drawing up the International Swap Dealers Association (Isda) master agreement, a flexible, all-purpose document that allows an intermediary to reconcile all of its transactions with a defaulted counterparty and come up with a final net payment.

This practice of netting has become a crucial factor in the growth of the derivatives market. Bankers say that not only does it reduce credit risk, it also means that if capital adequacy rules are applied to the net, not gross, value of transaction payments, participants in the business can reduce the amount of capital they have to put aside to support the business by as much as 50 per cent.

The central problem with netting, however, is that its status as a legally recognised practice is only ensured in the US. In non-US jurisdictions, no one knows if the Isda master agreement and netting would hold up in a bankruptcy court.

The BIS has given netting its unofficial seal of approval, but only in a somewhat hedged manner. The Lamfalussy Report, in November 1990, concluded that bilateral netting was "virtually certain" to be legally binding in all Group of Ten countries.

The derivatives industry seized on the finding as proof that netting would work. Yet regulators point out that the Lamfalussy Report also expressed reservations, saying that no single form of bilateral netting arrangement exists which will work in every jurisdiction, primarily because each contract has to be tailored to fit the bankruptcy law under which it is designed to operate.

This thorny issue is currently being looked at by a BIS sub-committee. It is looking into credit-related risk, which includes both bilateral and multilateral netting. This dual approach has disappointed some industry observers, who claim that the investigation of multilateral netting – a technique which would require the establishment of a central clearing house and is probably many years away – is holding up the inquiry into bilateral netting and should be kept separate.

A second BIS sub-committee is looking into market-related risk – what happens to derivatives in the event of sudden and dramatic shifts in market prices and conditions. One central banker categorised this study as an effort to understand how market risk can be incorporated more fully into current risk-adjusted capital structure, which is primarily designed to account only for credit risk.

Both sub-groups are still conducting their studies. The market-risk group's investigations are currently stalled, because of differences between national regulatory agencies, while the credit-risk group is waiting to see what the BIS supervisors committee has to say on the subject.

As one senior central banker admitted, any action on netting from the BIS is "not months, but years away." The market's participants are left grinding their teeth in frustration at the delays. Mr Mark Brickell, a former Isda chairman and member of J.P.Morgan's emerging markets group, believes that the quicker netting is recognised the better. He says: "We'll have a less risky system when more transactions are put under these [netting] agreements."

While international regulators like to view derivatives on a global scale, and look at the systemic risks in the business, they are also worried about practices at individual banks and securities houses, and whether they are being adequately monitored by the authorities.

The Bank of England, for example, is currently conducting its own study into both over-the-counter and exchange-traded derivatives, to find out more about the new instruments in the market, and to discover whether the banks and securities houses that design and trade them, and the corporate customers who use them, fully understand the risks they are taking.

In this respect, some regulators are particularly worried that, as the margins intermediaries earn on the simpler, more established, products decline in a maturing, more competitive market, some banks and securities houses may be rushing into more complex, esoteric instruments where the returns are higher, but where the risks are less well understood.

They are also worried about practices at individual banks and securities houses

Perhaps the greatest worry is that the senior management and boards of directors of these companies do not know what is happening. As one senior regulator puts it: "We feel that some directors are not wholly comfortable with derivatives, and they don't know anybody who they can trust. There is a gulf between the top and medium level that is not being wholly bridged."

It is a point echoed by another central banker, who accepts that, while many derivatives involve risks that bankers are familiar with, the newer, more complex instruments which combine risks in a single product, transform those risks in a way that is unfamiliar to senior bankers.

This concern that innovation is getting out of hand was best expressed in the now notorious speech to New York bankers, in January, by New York Fed chairman Mr Gerald Corrigan. Mr Corrigan's comment that "hi-tech banking and finance has its place, but it's not all that it's cracked up to be" was clearly aimed at the sharp end of the business, where the pace of innovation is most hectic.

In its defence, the industry argues that only a small proportion of the total derivatives business involves the new hi-tech instruments that regulators, legislators and the press make such a fuss about. Derivative specialists also say these new products are less complex than they look, that most are variations on a theme – primarily different combinations of risk-management instruments, combinations easily broken down into component parts that have been used and understood for years.

Industry insiders also decry the notion that senior management does not understand what their derivatives people are doing. While some accept that, in the early days, the view that "rocket scientists were bamboozling management" may have been partially valid, the level of awareness and understanding of the business is said to be much higher today.

Furthermore, Mr Malcolm Basing, current head of Isda, questions whether senior managers should be expected to know every detail of the derivatives business. After all: "How many people at GM who make motor-cars understand the engineering of the motor in details, or how a catalytic converter works?"

Malcolm Basing believes commodity swaps will be a big growth area

Tracy Corrigan offers a guide to some of the new products

Volatility demands ingenuity

IT HAS been a difficult year in the financial markets. Sudden foreign exchange and interest rate movements have taken investment managers and banks by surprise.

Last year's easy trading profits have evaporated in volatile market conditions, with difficulties often exacerbated by high short-term interest rates. Companies, already struggling to cope with the recession, have also had to deal with shifting revenues and costs due to currency devaluations.

Derivative specialists have reacted by designing products structured to protect against – or take advantage of – market conditions. A series of new products – or variations on old ones – designed to help fund managers and companies cope with uncertainty and volatility have enjoyed a vogue.

Volatility has been most extreme in the foreign exchange market. As a result of volatility, the cost of currency options, which companies typically used to hedge their foreign exchange exposure, has rocketed. Banks found that they had been writing (or selling) currency options too cheaply, because the exchange rate mechanism had held down volatility, which helps determine the price of options. Following the recent turmoil in currency markets, a number of banks which had been writing options have found themselves out of pocket, and are now putting their prices up.

As a result, some companies are eschewing options in favour of dynamic hedging. In dynamic hedging, instead of buying options in the market, exposure is hedged dynamically by buying and selling forward contracts in the market in order to replicate options. This method creates substantial savings for companies, according to Mike Shilling, assistant director at Record Treasury Management.

Meanwhile, some banks are touting Safes – synthetic agreements for forward foreign exchange – which are essentially forward contracts that do not require an exchange of principal. As a result, banks need to devote less capital and are less exposed to the risk that their counterparty will default. There are two types of Safe: the exchange rate agreement, or ERA, which protects the purchaser against a change in the forward foreign exchange spread; and the forward exchange agreement (FXA), which gives protection against a change in the spot rate as well as the forward spread.

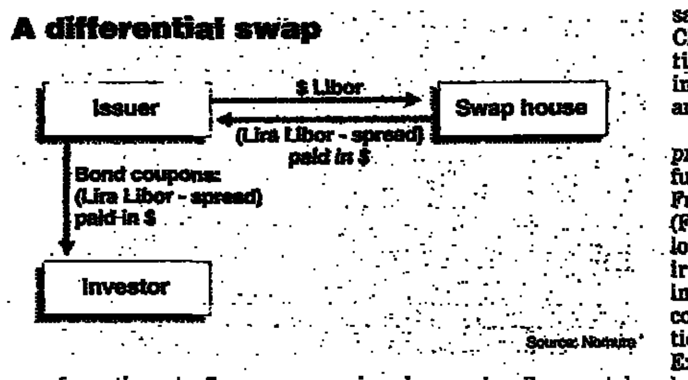
On the interest rate side, the most successful product this year has been the differential, or "diff", swap, also known as the "quanto" swap, which allows a borrower or an investor to separate currency and interest rate exposure, by paying interest rates based on one currency while taking the currency risk of another.

For example, a company with Deutsche Mark liabilities, paying, say, 8 per cent interest would prefer to be paying dollar rates of 3¼ per cent, but may not want to be exposed to the dollar. Under a differential swap agreement, the company agrees to receive D-Mark Libor in D-Marks, and to pay a margin over dollar Libor in D-Marks.

The structure takes advantage of different-shaped yield curves to create immediate cost savings for the borrower, and allows an investor to receive higher interest rates without changing currency exposure.

Such an agreement typically runs from three to five years, so the risk for either borrower or investor is that the shape of one or both yield curves will change more quickly than expected, turning expected benefits into losses.

A differential swap



Source: Nomura

"A major change this year has been the introduction of interest rate swaps into fixed-income portfolios," said one fixed-income specialist. This had been encouraged by the availability of a liquid swaps market at times when liquidity in cash markets had evaporated.

There are other bets on the yield curve, such as the Libor-in-arrears swap, which has enjoyed a new vogue this year. The borrower essentially takes a bet that implied forward rates are wrong, by having Libor set, say, six-months in arrears. Meanwhile, specialists continue to expand the range of applications for derivative techniques.

The commodity swaps market – which allows companies to reduce their exposure to price changes in oil or metals – has grown swiftly in the last couple of years. From $3bn in 1988, according to estimates, the size of the market had reached $10bn before Iraq's invasion of Kuwait in 1990, and is now believed to total $40bn, mostly in oil-related transactions.

Mr Malcolm Basing, of Swiss Bank Corporation, who heads the International Swap Dealers Association, believes that commodity swaps will be a big growth area next year. "We have the computing power and the people, and the risk is certainly there," he said.

Meanwhile, the Chicago Board of Trade will launch the first contracts based on insurance risk on December 11. The futures and options on catastrophe insurance are designed for hedging underwriting risk associated with unexpected disasters.

The contracts "will be the first in a new complex for a vital industry in need of efficient risk-management tools," said Mr William O'Connor, CBOT chairman. Other potential insurance contracts include health, homeowners and reinsurance risk.

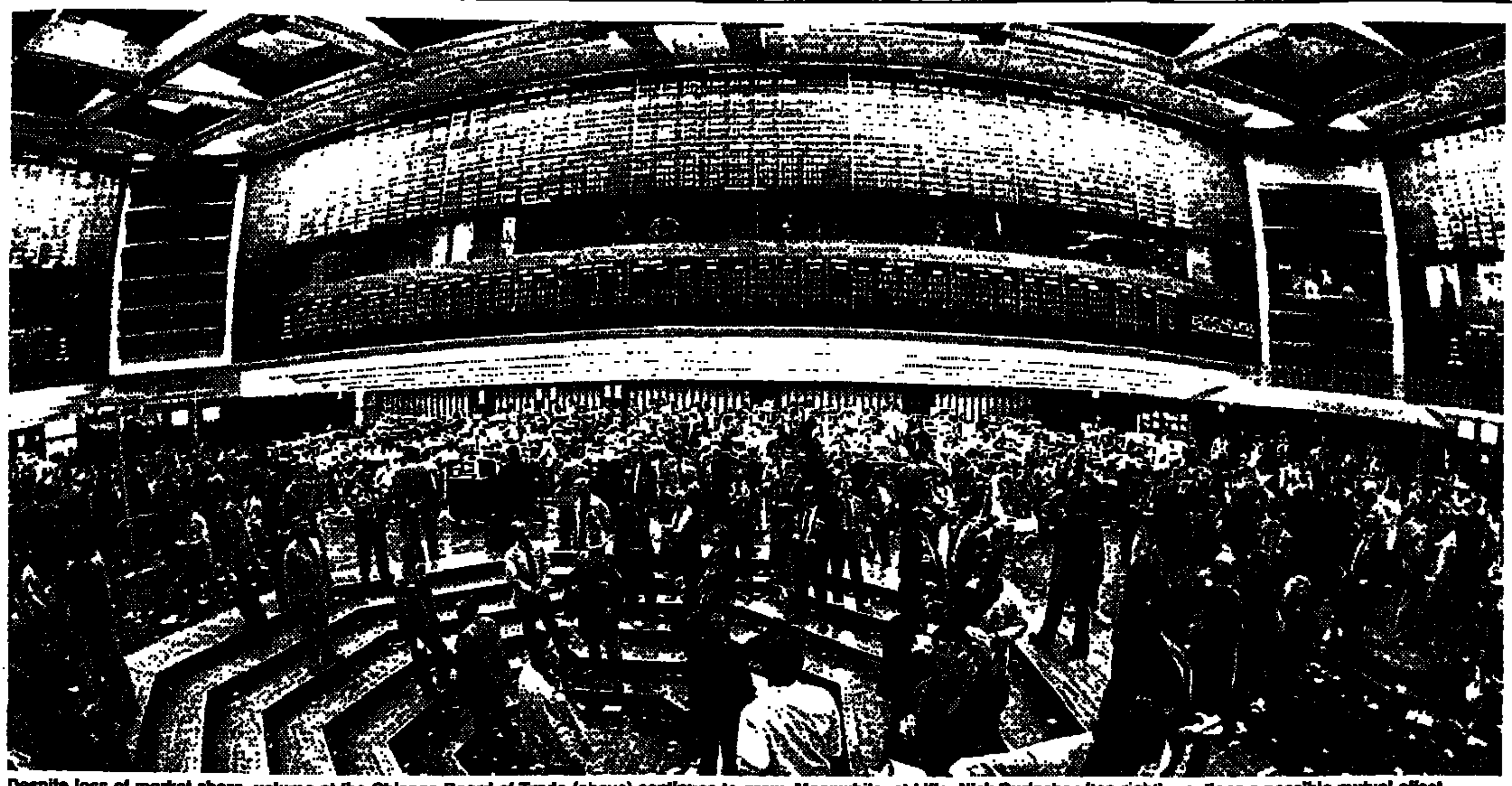
There is also talk of reviving property futures. A property futures contract on the London Futures and Options Exchange (Fox) was closed last year, following the discovery of trading irregularities designed to inflate volume in the failing contract. The London International Futures and Options Exchange (Liffe) is considering launching both property and insurance futures.

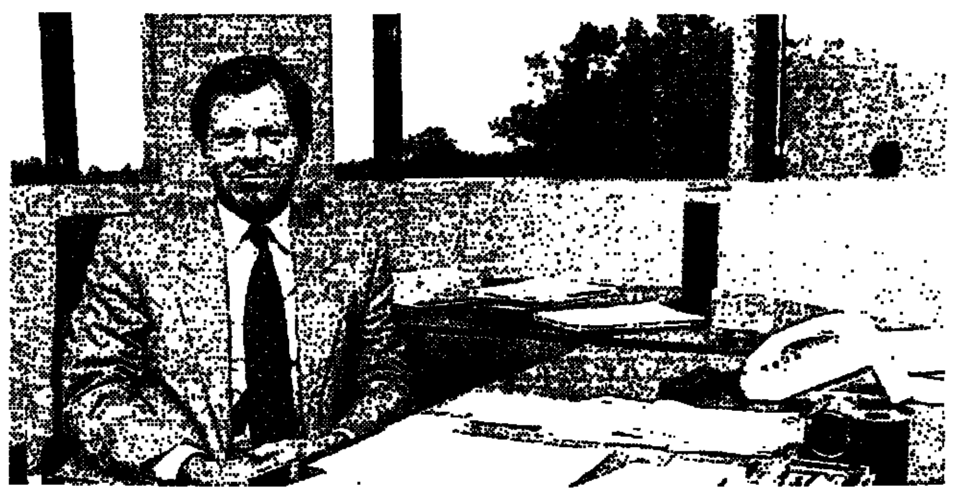
Still on the drawing board is another new breed of derivatives. A number of institutions are developing credit risk derivatives, which would allow fund managers, banks or companies to synthetically reduce their credit risk.

For example, a fund manager holding double-A rated bonds could buy a credit-risk option which would compensate him if the securities were downgraded to single-A.

Potentially, the concept could also be extended to tackle the problem of counterparty risk in the swaps market, but the development of credit risk products is still at an early stage. Some problems, such as analysing the pricing of credit, may not yet have been solved.

"With all these new products, the concepts are there," said one specialist. "But it is extremely difficult to find efficient reference points for concepts like credit risk or insurance."





Despite loss of market share, volume at the Chicago Board of Trade (above) continues to grow. Meanwhile, at Liffe, Nick Durlacher (top right) mentions a possible mutual offset arrangement with the CBOT; and at the DTB, Jörg Franke says talks with the Chicago exchange are continuing, though there are legal obstacles Pictures: Glyn Genin/Andrew Mears/Alan Harper

New exchanges around the world have reduced the Chicago giants' market share

A global game for allies and rivals

Technology has broken down domestic barriers and spanned time-zones ... **Tracy Corrigan** in London and **Laurie Morse** in Chicago review developments in the fast-growing market

THE FUTURES industry is becoming increasingly competitive, as new exchanges spring up around the world and competing exchanges launch rival products.

Paradoxically, this has *spurred greater interest in* creating links between exchanges. Technological advances have enabled traders around the world to come together on screen-based systems, while the breakdown of barriers between domestic markets has furthered the internationalisation of futures as well as cash markets.

The Chicago Board of Trade (CBOT) and the Chicago Mercantile Exchange (CME), after 10 years of dynamic growth, have seen their world market share fall in the last year or so, due to growing competition from European exchanges, though year-on-year volume continues to grow and membership sales in the second half of 1992 hit record levels.

As a share of global futures trading, volume on the CME and CBOT dropped to 40 per cent this year, compared with 80 per cent in 1985. In the first half of 1992, the CME and the CBOT saw volume grow at 28 per cent and 11 per cent respectively. *But volume on the London* International Financial Futures Exchange (Liffe) surged 84 per cent rate, and on Germany's Deutsche Terminbörse (DTB) jumped 143 per cent.

Chicago has a natural disadvantage in its time-zone. While European centres sit in the middle of the world's financial markets, overlapping Asia's afternoon and North America's morning, Chicago gets the tail end of London's afternoon, and misses Japan entirely.

In 1983, the CME franchised an exchange in Singapore to capture business in a portion of the world that slept while Chicago traded. It aimed to capture the interest of Hong Kong and Tokyo traders with the Singapore International Monetary Exchange, in advance of Japan's entrance into the financial futures arena.

But the Simex project was quickly overtaken by new exchanges in Japan and other *parts of the Pacific, and there* have been no other franchises. By 1987 Chicago exchanges were turning from aggressive expansion to defensive market positioning as foreign competition increased.

That year the CME proposed a sort of electronic futures supermarket with the potential to offer products from every exchange in the world 24 hours a day. In June, Globex, the international after-hours screen trading system, was finally launched after five years in development by the CME, CBOT and Reuter, at an estimated cost of $80m (£43m).

So far only the Marché à Terme International de France (Matif) has joined the system. Its French bond futures will start trading on the system in the first quarter of next year. *But at least a half dozen other* exchanges, including the Sydney Futures Exchange and Liffe, are in advanced discussions on signing up to Globex

Liffe appears to be getting closer to agreement on two stumbling blocks – the length of its initial commitment to the system, and the terms for listing contracts on Globex.

Exchanges have also been in engaged in bilateral attempts at mutual offset trading.

The CBOT has been courting Liffe, offering to swap part-time rights to its 10-year US Treasury note contract for night-time trading rights to Liffe's successful Bund and Italian Bond futures. Old rivalries and a leadership change at the Liffe have so far prevented consummation of the deal. This would be only the second link of its *kind, after the agreement* between the CME and Simex, on their Eurodollar contracts.

In a recent letter to members, Mr Nick Durlacher, Liffe's chairman, said the exchange was discussing with the CBOT "the possible establishment of a mutual offset arrangement for certain products. This approach is consistent with your board's long-held view that the trading of identical products in different time zones is best achieved by exchange linkages," he added.

The DTB, Liffe's rival for dominance of Bund futures trading, is also in negotiation with Globex, and is further considering links, outside Globex, with the CBOT, or with other exchanges.

"We are still in talks with the CBOT and Globex, but there are some legal obstacles," said Mr Jörg Franke, chief executive of the DTB. Until new laws are introduced next year, the DTB's plans will be hampered by its inability to *comply with US rules on dis*closure and market supervision.

The DTB is also planning to expand internationally by establishing trading terminals throughout Europe. The exchange hopes to have terminals in London during the first half of next year.

Meanwhile, some smaller European exchanges have already joined together in an effort to broaden their distribution. The European Options Exchange in the Netherlands, OM Group, with exchanges in Stockholm and London, and Switzerland's Soffex signed a co-operation agreement in May. The alliance, known as First European Exchanges (Fex) has since been further expanded by the admission of Otob, the Austrian exchange. They plan to offer local access to derivative financial products developed on other exchanges.

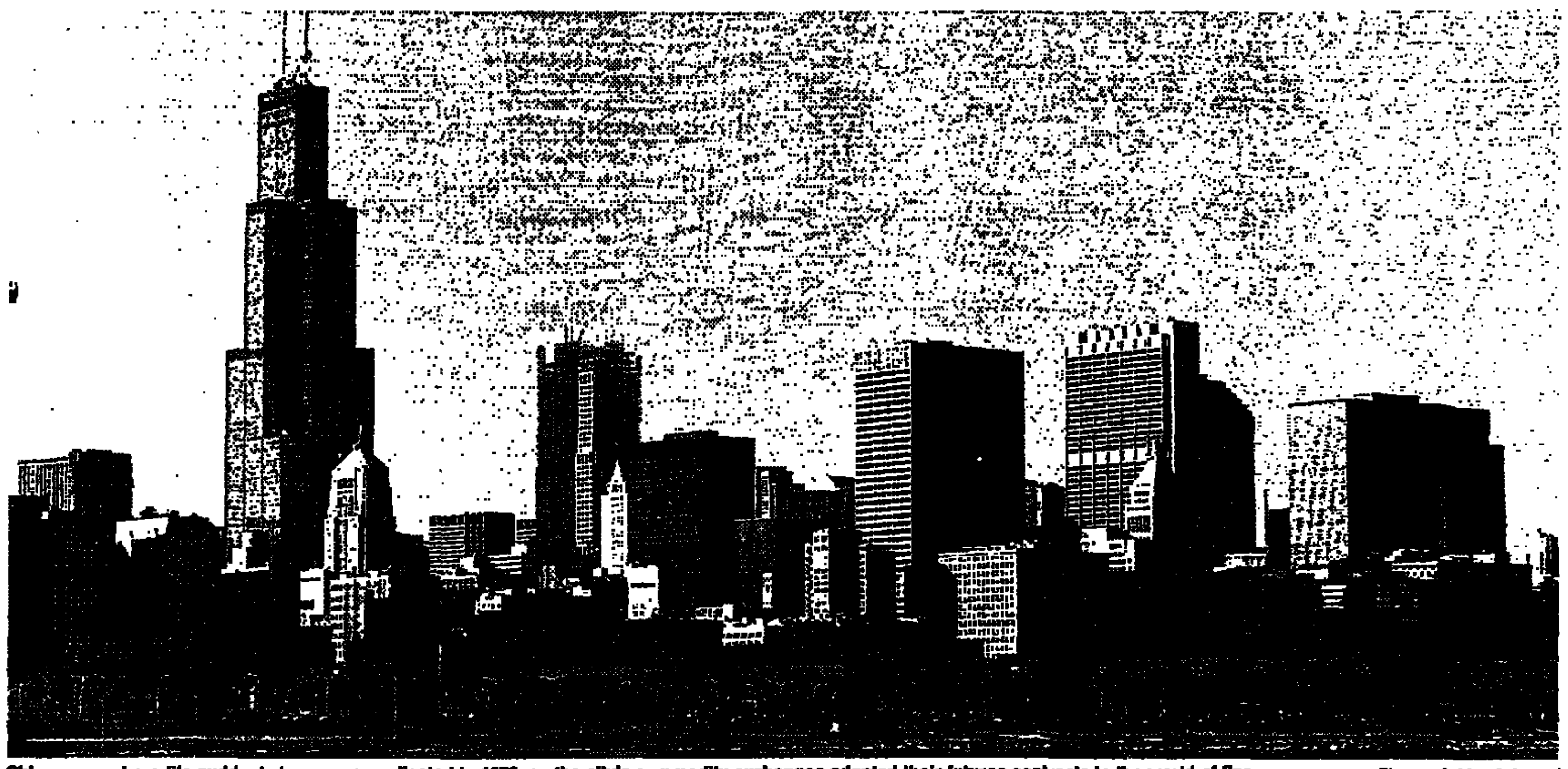
Meanwhile, some exchanges are still trying to grab contracts from other time zones, a *less than convincing competi*tive strategy, although it does generate volume and preserves certain opportunities. In the past five years Chicago has launched two Japanese stock index futures contracts, a yen bond contract, English stock index futures, and a handful of currency cross-rate futures.

Versions of the CBOT's US Treasury bond futures trade at the Liffe and the Tokyo Stock Exchange, while the CME's highly successful Eurodollar futures contract has been imitated by the Tokyo International Financial Futures Exchange.

The New York-based Comex, best known for its precious metals contracts, this month expanded its trading hours in a different direction. In a bid to bolster its fledgling Eurotop 100 contract, it is asking its traders to open the pit at 0530 EDT to catch part of the European morning stock markets. But despite direct competition, the CBOT still keeps a stran*glehold on US bond futures,* the Osaka Securities Exchange still dominates the Nikkei-225 index market, and Liffe trades far and away more FTSE-100 contracts per day than the CME. Whether the future lies in Globex, which has yet to prove itself, or in bilateral links between exchanges, greater co-operation between exchanges seems to be on the way. Although competition in some areas remains fierce, exchanges seem to be finding that their common interests exceed their points of conflict.

"We currently have more than 20 futures and options exchanges in Europe [including those dealing in commodity derivatives], and we have to look at how to come together," said Mr Franke, of the DTB.

DERIVATIVES 4



Chicago . . . where life suddenly became complicated in 1973, as the city's commodity exchanges adapted their futures contracts to the world of finance Picture: Ashley Ashwood

Laurie Morse on the exchanges' response to the OTC challenge

New law lifts uncertainty

THE WORLD's futures and options exchanges are, to some degree, the victims of their own success. Their pioneering work in developing futures contracts on foreign currencies, debt, and equities converted a whole population of staid bankers and corporate money managers into hi-technology financial strategists.

They created a financial industry called risk management, and in the process awakened Wall Street giants who have learned their game and are taking it beyond the bounds of exchange trading floors.

Before the advent of derivatives, the financial world was simple. A fraternity of investment bankers catered to the vast financial needs of the world's governments, municipalities and corporations. They made their bets and took their lumps or rewards in private. Off to one side were the stock and commodity exchanges, where small investors, protected by financial guarantees and government-supervised rules, met the world's monetary giants.

Those lines blurred in 1973, when Chicago's commodity exchanges adapted their futures contracts to the world of finance. Backed by financial physicists from the University of Chicago, the Chicago Mercantile Exchange (CME), then best known for its pork-belly pit, invented currency futures.

That same year, the Chicago Board of Trade (CBOT) took a look at the stock market, listened the pricing theories of a couple of bright academics named Fisher Black and Myron Scholes, and created stock options.

The creations transformed finance. Exchange volumes rocketed as futures and options appeared for every imaginable debt and equity instrument, and for new commodities like oil. The traders and the trades became increasingly sophisticated, as did the technology that aided them. Exchanges grew rich and dependent on spectacular annual growth rates.

The exchange bonanza slowed in the US after 1987, about the same time a few of Wall Street's biggest investment banks started to apply exchange-style risk-management strategies to private transactions with their customers.

The change in tide was predictable, given the constraints of the exchange instruments. Exchange-traded futures and options have standardised contract sizes, delivery dates, and specifications for the underlying securities. Corporate clients wanted tailor-made hedges for their portfolios.

The resulting over-the-counter (OTC) derivatives market exploded with even more force than financial futures, and now dwarfs exchange volume. Wall Street bankers say both markets benefited from the global expansion of financial markets in the 1980s, and that on-exchange and off-exchange products are compatible and not competitive.

Before the advent of derivatives, the financial world was simple. But the lines blurred in 1973

That sanguine view was not shared by the futures industry. Executives at the CBOT and the CME, stung by the challenge to their franchise, led a charge to have swaps, the over-the-counter instruments most often used to hedge currency and interest rate risk, classified as futures. US commodities law requires all futures to be exchange-traded.

The exchanges were furious that their own regulatory constraints limited their flexibility to compete with the new OTC instruments.

The battle was a delicate one. The exchanges were attacking top-tier investment banks, including Goldman Sachs and Solomon Brothers, that were their biggest customers and often exchange members. *If they won*, the exchanges would retain their monopoly, but would have caused the collapse of a multi-trillion-dollar industry.

In the end, Wall Street persuaded the exchanges that they shared important interests. After years of wrangling, the two groups teamed up this year to support legislation that exempted swaps from futures regulation, while accomplishing the long-delayed reauthorisation of the Commodity Futures Trading Commission (CFTC).

The law, which was passed in October, relieves the swaps markets of regulatory uncertainty, and, in a twist, may let futures exchanges offer swap-like products without CFTC oversight.

In the meantime, US futures and options exchanges have had time to measure the effect that OTC derivatives have had on their business. Some, like the New York Mercantile Exchange (Nymex) and the CME, have found that counterparties in energy and interest-rate swaps eventually come to the exchanges to lay off their risk.

To the extent that swaps dealers educate potential customers and place a share of their trades in the futures pits, they are welcome business partners. "We view the swaps markets as the commuter train that brings customers to CME's station," says Jack Sandner, Chairman of the Chicago Mercantile Exchange.

In a bow to that business, most exchanges have modified their products to accommodate OTC traders. The Nymex in 1990 extended the delivery months for its crude oil futures out to 36 months, from its initial 18 months. Almost all the action in those new contracts are from swap traders. Like nearly every other US futures and options exchange, Nymex has also modified its rules so that institutional traders who demonstrate that they have swap market risk can take big positions with reduced margins.

To accommodate a $3,000bn interest-rate swap market, the CME has long-dated the delivery months in its highly successful Eurodollar futures market out to five years. The Euro contract and interest-rate swaps have grown in tandem, with Eurodollar futures and options positions valued at about $2,750bn at the end of 1991.

The CME's foreign currency futures haven't fared as well. Volume and market share is dropping as the OTC market expands. The CME failed in an attempt to launch a future to mimic the highly successful OTC currency swaps market. While they don't yet tailor-make derivatives, exchanges can do a few things OTC markets cannot. Exchange clearing-houses guarantee all trades, and take the opposite side to every futures and options transaction. This eliminates the credit risk and counterparty risk present in OTC trades.

Price discovery is easier than in the OTC markets, because futures and options trades are reported immediately, and the *prices are widely distributed.* Since there are many traders in each futures pit, exchange-traded derivatives are also more liquid that bilateral OTC trades.

Mr William Floersch, vice chairman of the Chicago Board Options Exchange, believes that exchanges can compete with OTC derivatives. Noting that only the biggest investment houses have the capital assume the risk of OTC trades, Mr. Floersch says: "There are enormous amounts of people with lots of capital who don't have access to the OTC market. We are interested in getting small and medium sized dealers into the [derivatives] business."

The CBOE may be the first exchange to construct a product that its customers can adjust to own their needs. It plans to begin trading "flex options" during the first quarter of 1993. *The product is* aimed at institutional OTC customers, and will allow them to select any strike price and expiration out to five years.

The flex options will initially apply to the CBOE's Standard and Poor's 100 and 500 stock index baskets. The trades will have $10m underlying value, much larger that its standard index options contracts.

The CBOE has selected the most commoditised area of equity swaps, "plain vanilla" in industry parlance, to attempt flex. Wall Street investment bankers grudgingly concede that flex options may fly. Corporate treasurers who have become accustomed to using swaps may be weaned from the OTC market with the credit guarantees of the CBOE's clearing-house and by its more competitive method of pricing.

The CBOE plans to begin trading 'flex options' during the first quarter of 1993

The CBOE and its New York rival, the American Stock Exchange, are also planning stock index options with quarterly expirations to accomodate fund managers whose performance, already linked to a stock index, is judged on a quarterly or year-end basis. The CBOE's index options typically expire at mid-month.

If the CBOE is preparing a run on the OTC equity market, the tiny Philadelphia Stock Exchange is not ready to surrender the currency derivatives business to off-exchange trading. Like the CME, the Philex's attempt at currency cross rate options trading failed.

However, the exchange, which has the largest exchange-traded currency options business in the US, is also planning month-end expirations, and some very short-dated products, with lifetimes *of a week or two. "We found* we got the most activity in our products during the last weeks of their life," said Joseph Rizzello, *Philex's senior vice-president* for marketing.

Mr Rizzello believes that the Philex can tweak its standardised products enough to make them appeal to corporate customers. He also thinks foreign exchange trading can only expand globally, and he wants the Philex to have a piece of the action. Exchange-traded currency options are now a $6bn a day business, while their OTC counterparts are valued at $30bn.

Of the nation's biggest exchanges, only the CBOT is uncomfortable about compromising with the OTC market. OTC derivatives bring some business into the exchange's 5- and 10-year Treasury note futures pits, but not enough to satisfy exchange officials.

They believe the new Commodity Futures Trading Practices law gives exchanges equal rights to trade swaps free of regulation, and they plan a fiesty demonstration of their new freedoms. CBOT Chairman William O'Connor said the exchange was prepared to trade swaps on its electronic bulletin board as soon as practicable. A tiff between the CFTC and the CBOT over the interpretation of the law may delay that venture.

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Tracy Corrigan *on European banks' activity in a growing market*

US pioneers lured to new frontier by rich packages

ENTHUSIASM FOR the derivatives market among banks and securities houses in Europe is unabated, even though most other areas of their business are contracting. European and Japanese banks are struggling to catch up with the US banks which were at the forefront of developing many innovative derivative instruments.

The size of the derivatives market has increased substantially in the past two years. While the exchange-traded futures and options business is now considered a mature market, the market in over-the-counter (OTC) derivatives – specialised products designed to suit clients needs – is still expanding rapidly.

"A lot of European banks still have to complete their teams," said Mr Tim Sheffield, an executive consultant specialising in derivatives at Jonathan Wren. "Last year, many of them established their operations and entered the market. This year they have been building upon that base."

The US banks, which were the pioneers of OTC derivatives business, have started to see their dominance threatened in Europe, particularly by European banks anxious to take advantage of their strong credit ratings.

The main strategy of European banks has been to hire experienced people from the leading US banks. In order to attract key people, European banks have had to offer substantial packages.

But the tendency has been to offer increased bonuses and other perks, rather than raise basic salaries, in an attempt to control costs more effectively than in previous recruitment efforts.

For example, a top equity derivatives salesperson is expected to generate revenues of $5m-$10m a year, for which he or she would receive a package consisting of £85,000-£100,000 basic, plus a bonus of around £300,000, according to Mr Sheffield.

The policy of hiring a well-known market professional to head up a new derivatives team has proved an effective means of showing commitment to the market, and therefore of attracting the right team at the lower levels.

The classic example is Crédit Suisse Financial Products, now a market leader, which was set up 2½ years ago under the leadership of Mr Allen Wheat, who had headed Bankers Trust's strong derivatives-led London operation. CSFP was then able to recruit top derivatives specialists, including a team from Bankers Trust, even though Crédit Suisse First Boston, its sister company, did not previously have a strong presence in the derivatives market.

From a start-up operation consisting of 30 people, the front- and back-office staff of CSFP now totals close to 500. "It won't see the same helter-skelter growth over the next couple of years," said Mr Wheat. He explained that the liability-management side of the business was mature, but that there would be some expansion on the investment management side.

Although no separate results are published, CSFP is known to be a significant contributor to the bottom-line of Crédit Suisse, its parent. "The return on capital is way in excess of the average for the firm," said Mr Wheat.

UBS Phillips & Drew, which has made a more recent push into derivatives, has followed an aggressive hiring policy in an effort to build its presence in the market. For example, the firm recently recruited Mr Ramy Goldstein, from Goldman Sachs, to head up its equity derivatives business in London.

"Recruitment became easier for them after that, and they were able to hire some top-quality sales people," said Mr Sheffield, of Jonathan Wren.

But the rapid expansion of the OTC market has made it hard to find experienced derivatives personnel. Most banks first look internally, perhaps moving staff from, say, fixed-income to equity derivatives, or from futures broking to OTC derivatives trading.

A top equity derivatives salesperson is expected to generate revenues of $5m-$10m a year

There has been a strong build-up this year in equity derivatives, which many banks believe will see the fastest expansion, as more fund managers become users of derivatives. But there has also been a recent surge of growth in the area of structured foreign exchange derivatives, following the upheaval in the currency markets this autumn.

Although exchange-traded futures and options are a much more mature business, the continued increase in the number of users of futures contracts in Europe has encouraged European banks to build teams in that area as well. While approaches to the structuring of derivatives business still vary – some institutions differentiate between equity and debt products, or between exchange-traded and OTC derivatives – many banks have been restructuring their derivatives operations this year. For example, National Westminster has been consolidating its exchange-traded business under NatWest Futures, and has set up a derivatives unit called NatWest Financial Products.

But salaries are generally lower in the exchange-traded than in the OTC market, partly because exchange-traded markets tend to be more competitive and therefore less profitable.

"A good broker can be a loss maker if paid incorrectly," *said* Mr Sheffield. For example, a successful broker earning £50,000-£60,000 could become a loss-maker if he was hired away for £80,000.

Meanwhile, US banks, which have been suffering some loss of business as a result of their declining creditworthiness, are now starting to look at other ways of creating credit-enhanced units through which to channel derivatives *business. A number are likely* to set up separately-capitalised derivatives units in the coming year, based loosely on the model of Merrill Lynch Derivatives Products, which was established a year ago.

According to Mr Christian Schade, vice-president in charge of European swaps marketing at MLDP: "[Our derivatives business] has expanded across the board, because of the vehicle. We can deal with counterparties who would not normally consider us."

After its first year of trading, MLDP has a portfolio of 550 transactions with a notional value of $22bn, made up of 106 active counterparties. Revenues for the nine months ending in September totalled $13m.

Some banks and securities houses have paid a price for their rush to participate

Salomon Brothers is expected to set up a credit-enhanced vehicle in the next few months, while other banks currently believed to be planning separately capitalised units are Continental, Citibank, Chase, *Lehman* Brothers and Kidder Peabody.

Goldman Sachs set up a separately-capitalised derivatives unit earlier this year, but with somewhat different objectives. "We had certain positions which it made sense to put into a special purpose vehicle; now we are starting to look at other ways to use it," said Mr Kipp Nelson, an executive director at Goldman. "It is not, broadly *speaking, the vehicle we use* for derivatives transactions."

While most banks with weak credit ratings, which are involved in the market, are now considering setting up credit-enhanced vehicles, the concept is still met with scepticism in some quarters.

"To go the full route, you have to put up a lot of capital, so unless you can generate a lot of activity, the return on capital may not be satisfactory," said one banker.

The derivatives market boasts many success stories. But some banks and securities houses have paid a price for their rush to participate. Inadequate systems, weak controls, or simply insufficient understanding of complex risks have created a number of victims.

The enthusiasm of some Japanese entrants to the market last year has noticeably abated, while the recent shock *waves in the foreign currency* markets also claimed some victims.

But with attractive margins still to be earned, many senior managers feeling that they cannot afford to stay out of the market.

DERIVATIVES 6

Risk management

Salutary September

THERE IS nothing like a good old-fashioned crisis in financial markets to test just how good your damage-limitation policies really are. That's exactly what the European currency markets got in September – and the damage-limitation in many cases was inadequate.

"It focused the mind," says Mr Gary Southern, head of capital markets at National Westminster. "It reinforced the old story – how good are your systems, and how do you deal with a once-every-ten-years event?"

Risk-management systems, into which certain assumptions have been fed about the way financial markets behave, do not respond well when the markets do something altogether different. That explains the discomfort experienced by many derivatives houses in September.

First, the volatility in currency and short-term interest rate markets shot up. Most banks' risk-management models work on a 95 per cent confidence level: that is, they are programmed to expect the sort of behaviour that is usual most of the time. Anything outside that range – the once-every-ten-years event – is not planned for.

The trouble is, when that event comes, the markets can move far from their normal ranges – as happened in September, when interest rates in some European currencies soared past 100 per cent. Any confidence level is likely to prove an illusory comfort. As Ms Marion Robieson, head of product risk at Bankers Trust, in New York, said shortly afterwards: "In practice, you almost never reach this level – except when you grossly exceed it."

Second, liquidity disappeared in many markets as the crisis broke. That meant that any institution that was hedging dynamically – that is, adjusting its cover minute-by-minute to reflect market movements – could no longer find anyone to deal with. The only alternative: sit tight and wait for normality to return, by which time the institution could be sitting either on a big profit or a big loss.

The lessons of September should have filtered through to most senior bankers by now. They have certainly not been wasted on banking regulators. Speaking at a conference at the end of November, Mr Alexandre Lamfalussy, general manager of the Bank for International Settlements, criticised derivatives specialists for not making clear the real risks they were running on behalf of their banks:

"They fail to make explicit to their senior management [and on occasion even themselves] that the pricing and hedging models are based on historical volatility experiences which are not necessarily safe guides for the future."

He added: "I have the impression that some of the volatilities experienced a couple of months ago were of a scale which were not incorporated in the models, and may have therefore led to an unexpected erosion of liquidity in some of the markets"

Few systems respond well when the markets do something unexpected, says Richard Waters

While recent events in the markets have given the risk managers something to think about, trying to assess the risks in new financial instruments remains among their biggest concerns. Breaking a new financial product down into its component parts and hedging each bit each separately (interest rate risk here, currency exposure there and volatility somewhere else) does not always work.

"The problem with new products is that they sometimes involve risks that are not traded in the market," says Mr Brian Crowe, in charge of risk management for Chase Manhattan's fixed income and treasury operations in London.

An example is the "diff swap", which allows an institution to swap the cashflows on an asset or liability in one currency for those in another currency. Such agreements became common with the sharp divergence of US and European interest rates, which has only recently begun to be reversed. Diff swaps involve what is known as "correlation risk": an assumption that there will be there will be a correlation between an interest rate movement and that of the currency. Such tidy relationships do not always work in practice.

Correlation risk cannot be traded or hedged directly, leaving banks potentially exposed. Judging by the rumours in financial circles about the losses on diff swaps, some banks have already learnt these risks to their cost.

Understanding the risks inherent in new financial instruments may be exercising the minds of many bankers at the moment, but this is by no means the direction from which the biggest losses could come. "One ignores operational risk, legal risk and tax risk at one's peril," says Mr Barry Hamilton, head of risk management in the treasury division of Barclays Bank. Certainly, it is from these areas that some of the biggest publicised losses in derivatives markets have come.

Banks which entered swap agreements with British local authorities, for instance, discovered to their cost that the authorities had no legal power to enter such agreements – but only after several years of doing business and a judgment from the House of Lords.

And Westpac, the Australian banking group, demonstrated the pitfalls that can lie in international hedging operations a month ago when it was forced to pay an unexpected tax liability and penalties of nearly $80m in the US. The bill, which forced the group to halve its dividend unexpectedly, arose from what Westpac said was the conflicting tax treatment in the US and Australia of swaps and forward contracts.

The ability of settlement systems around the world to cope with large volumes of transactions – and concern about what would happen if a system collapsed – also appears high on the worry list of many risks management executives. As Mr Philip Guy, head of treasury at Hill Samuel, says: "It's the bits at the edges that are going to catch us out. You can know about the risks, but it's difficult to set up controls to protect yourself against them."

Back office or front office, they need a system that provides a seamless operational web Picture: Lydia van der Meer

Technology: lack of integration hampers many firms

Regulators want answers

TALK ABOUT technology with anyone in the derivatives business, and it will not be long before the word "integration" comes up. Integration can mean one of two things.

At the broadest level, it means bringing together the computer hardware, database tools and software used in the front and back offices, to create a seamless operational web that allows managers effectively to monitor and control their derivatives operations.

In a narrower sense, integration can also mean employing a single software package which can handle the entire range of derivative instruments, including swaps, forward rate agreements, options and all the many variations.

Both forms of integration are ideals to which firms aspire. The reality, however, is often something different.

Some players in the derivatives market use one system for swaps, another system for options, a third for caps, and so on. Similarly, the absence of integration between front and back offices means that firms use ill-matched systems that are both old and new, home-made and externally-developed, and above all, technologically incompatible. The resulting lack of integration at a product and departmental level can be a nightmare for derivatives managers. More worrying, it raises important questions about a firm's ability to monitor and control what is a complex and risky business.

These are questions that regulators, especially in the US, want answered. Mr Chester Feldberg, executive vice-president of the New York Federal Reserve, raised the issue of poor management in the derivatives business, last March, in a letter to banks operating under its jurisdiction.

Mr Feldberg said the Fed had become aware of some "basic internal control weaknesses" within the banks' trading operations, including inadequate accounting and control procedures in the trading of options, foreign exchange and interest rate derivative products. He went on to ask banks to review their risk-management controls and systems, and to take remedial action where necessary to bring them up to standard.

What so alarms the Fed is the possibility that banks may lack the technological tools and organisational structures to measure and control adequately the financial risks on their diversified derivatives books. In particular, the authorities fear that some banks – especially the small and mid-sized operators who have rushed into the derivatives business in search of quick, big profits – do not really know the full extent of their exposures.

Unmatched systems at product and departmental level can be a nightmare for managers, says Patrick Harverson

These fears are sometimes stoked by the third-party technology providers – the software companies that specialise in providing banks and securities houses with derivatives management systems.

While most players in the market tend to cherry-pick the best software the vendors have to offer – relying on a lot of their own, in-house developed technology to complete the structure – the software companies are understandably keen on preaching the gospel of integration.

Mr Rod Beckstrom, a former Morgan Stanley trader who founded C-ATS Software, one of the main providers of software to the industry, says integration is sorely lacking in many banks' derivatives operations.

"Many firms still can't mark their entire portfolios to market on a dynamic intraday basis, because their systems lack adequate speed," Mr Beckstrom told a swaps dealers conference earlier this year. "Some organisations can't update their accounting books on a daily basis. Some miss payments and must suffer huge penalties. Some firms can administer a swap through its life for about $2,500, while others spend about $35,000."

Mr Beckstrom argues that the central problem is the discrepancy that exists between what banks want to do in the way of risk management, and what their existing, non-integrated technology enables them to do.

This lack of integration is not just a consequence of using ill-fitting systems – differences between front- and back-office management can create political hurdles that are difficult to overcome. As one derivatives banker puts it: "In organisations, people have separate sets of objectives, and in many cases heads just clash over this sort of thing."

One way to avoid the departmental rivalries that impede systems integration is to make one senior executive responsible for both the front and back offices. It also helps if the back-office staff are not kept in the dark about what the "rocket scientists" who design the products and the dealers who trade them are up to.

Chemical Bank, in New York, is one place where the distinctions between front and back office have been blurred by integration. Mr Jeffrey Larsen, head of the bank's global derivatives operations, says his back-office staff are extremely sophisticated, and understand what is happening at the sharp end of the business. This sharing of knowledge has created a "middle office" occupied by systems and operational staff who bridge the gap between the front and back offices.

Chemical is one of the few in the derivatives business to rely almost entirely on its technology. Apart from a few remnants of outside software from its early days in the business, everything is designed and built internally. This is because the bank has discovered that mixing internally and externally developed systems is a complicated and not always effective process. Integration is also much easier if everything is done in-house.

Mr Larsen admits that the new "open" systems – which allow banks to take different groups of business computers and integrate them so they work as a whole – are more conducive to mixing. For the sake of cost and consistency, however, Chemical is sticking with its in-house technology, although it is updating its hardware from IBM-compatible PCs (the technology which most players in the business still rely on) to Unix workstations, "so that we can hook everything together."

The ability to run greater numbers of different applications simultaneously is why more and more firms are moving up to workstations. Although the latest high-end PCs compare favourably with Unix workstations in certain respects, the Microsoft operating systems remains relatively basic when measured against the Unix, which also has superior networking capabilities – an important point for banks and securities houses with big trading floors.

Most players in the derivatives business use a combina-

Continued on next page

Managed futures: the superstitious fear of futures and options is receding, says **Beverly Chandler**

Europe has something special to offer

THE MANAGED futures business, which recently started to take off in the US, is also beginning to take root in Europe.

It is based on the controversial idea that derivtives constitute a separate asset class, distinct from equities, bonds and commodities, and so represent a crucial part of a balanced portfolio.

Worldwide – but principally in the US – there is an estimated $21bn under management in managed futures programmes: money which represents both institutional investments, such as pension funds and insurance funds, and also savings from retail investors, both on and offshore.

The industry in Europe is estimated to be responsible for a mere $2bn of this money, but that figure may be set to grow. Mr Micky St Aldwyn, senior manager of institutional business development for ED & F Man, the oldest and biggest managed futures firm in Europe, says 1993 will be "the year when the European managed futures industry sees its biggest growth so far".

Globally, managed futures are enjoying something of a boom, mostly on the back of claims that they offer diversification from the more traditional investment fields of equities, bonds or cash, all of which have been vulnerable to the vicissitudes of their markets in the past few years.

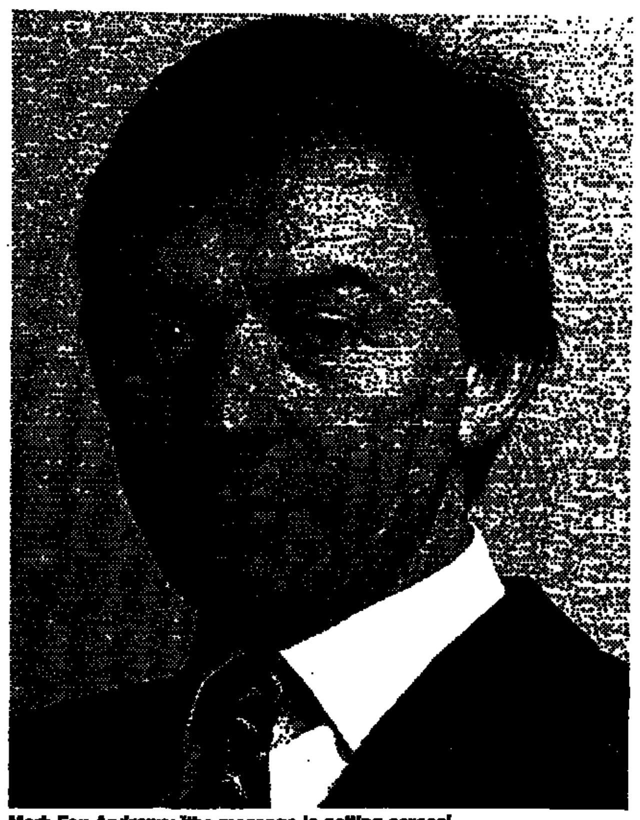
Suddenly, the superstitious dread with which many traditional investment managers viewed investments in futures and options has started to lift. Managed futures investments have shown themselves to be top performers during periods that have been difficult for other types of investment. However, there have also been periods when they have substantially underperformed other sectors of the market.

Europe has shown itself to have something special to offer. The number of derivatives exchanges in Europe has increased rapidly, resulting in more products in which to invest. Beyond that, a consensus has developed across the industry that the more established and familiar US derivative products are not correlated with those coming out of Europe.

The argument is that, by including European futures investment in a US portfolio, you can add further diversification to an existing portfolio, and have a better chance of achieving the above-average performance expected of the industry.

Evidence of this could be taken from the consistently strong performance achievements of Hasenbichler, a firm of Austrian commodity-trading advisers now based in Malta, which has appeared top of the Managed Account Report performance tables for much of the past year.

The most important factor in this apparent wave of interest in Europe is that it is coming at an institutional level. One of the first examples was seen last year, when part of the money under management in the State of Virginia's pension scheme was put into managed futures – and not just managed futures run out of the US.



Mark Fox-Andrews: 'the message is getting across'

A UK-based futures manager, Sabre Fund Management, got some of that money to manage. The blue-chip fund manager Henderson Administration bought 25 per cent of Sabre last March as its first step into the managed futures industry.

Mark Fox-Andrews, of Sabre, says: "There is a lot happening at the moment, because the message is getting across to the actuaries, trustees and clients that derivatives and managed-futures programmes are available, cheap and efficient. I hope that firms like us are going to be competing more with other forms of investment activity."

At the retail level, the regulatory restrictions on managed futures funds in Europe are still draconian. Only four European countries have regulations for such funds in place: the UK, France, Luxembourg and Ireland. Only France and the UK have domestic, retail managed futures funds. France has 18 funds, launched by the big French banks, which have headed into the industry with enormous enthusiasm; while the UK has two types of fund, the futures and options fund (Fof) and the geared futures and options fund (Gfof).

One of the first in the market in the UK, and still one of the principal players, is John Govett, which has 12 Fofs and two cash funds that run alongside.

Best performing managed funds open to non-US investors:
nine months to end-September

Fund	Selling agent	% return: year to date	% return: 12 months
Hasenbichler Commodities AF	Hasenbichler Trading Services	46.15	127.92
Wessex Private Investment Trust	Wessex Fund Management	26.77	38.79
Australian Futures Fund	ANZ McCaughan	18.40	25.70
Wessex High Income Trust	Wessex Fund Management	13.93	21.33
Wessex Capital Guaranteed Fund	Wessex Fund Management	13.63	18.10
Enigma Currency Fund	Folkes Asset Management	13.57	19.31
McD Financial Arbitrage Fund	McD Financial Services	12.57	12.36
Kenmar Guaranteed Fund	Kenmar Advisory Corporation	10.72	21.45
Olympia Star Series	Olympia Capital	10.16	19.37
Arbifin Investment	European Investment Managers	10.06	9.25
Moneylogic Protected Cap Fund	Moneylogic Protected Cap	8.63	31.85
Gems Progressive Fund "D"	Fundservice International	6.87	9.62
Currency Investment Partners	ML Futures Investment Partners	6.65	8.70
Gaia Hedge II	Galacorp	6.54	8.86
Finley Portfolio Fund	Finley Asset Management	5.67	7.71
MG-Aug 95 (Master Mint)	ED&F Man International	3.85	25.34
MG-Special (Master Mint)	ED&F Man International	3.29	23.53
Dual Futures Fund, Series C	Carr Asset Mgt/Terminvest	2.97	13.91
World Currencies	ML Futures Investment Partners	2.95	29.43
MG-Dec 94 (Master Mint)	ED&F Managers International	2.85	23.17

Source: Managed Account Reports, New York (*Futures and Options World*)

The firm has raised £133m for its Fofs, mostly through the broker bond route. Adam Parkin, director of John Govett and responsible for derivative investment, is aware that they have led where others now plan to follow. "There is no doubt that John Govett opened a door and raised the consciousness of retail funds in the UK," he says.

The next to step through that door is Fidelity, which has initially launched four Fofs, the Stabiliser Growth Range of Controlled Risk funds. In their turn, these funds are now part of Fidelity's Asset Manager money management service, designed to provide a better long-term return than a building society on the investor's savings.

To find futures and options funds for sale in the UK to the retail public is staggering. To find them on sale as a better option than a building society deposit is quite extraordinary.

"We have a real commitment to this market," says Trevor Robinson, head of derivatives, who reports that Fidelity plans further futures and options products, possibly even a Gfof, which has as yet not been seen in the UK.

Less successful, but equally enthusiastic, was the launch of the US Masters Guaranteed Futures Fund this year, by Johnson Fry Securities, better known for its distribution of tax-shelter products in the UK. The US Masters fund raised £4m, and Johnson Fry is coming back to the market with another managed futures product in the spring.

Citibank Private Banking Group has raised the most money for a managed futures fund in Europe, with its TradeWinds private offering in 1992, which raised $135m. TradeWinds had a state-of-the-art guarantee, based on a letter of credit, which limited the downside risk without tying up large amounts of the investment capital. Market research showed that 95 per cent of TradeWinds' investors went into the product because of this letter of credit.

Citibank now plans a new fund, aimed at the retail market in Germany and institutions in Switzerland, Holland and other European countries. It is believed that the product will be denominated in Deutsche Marks and equally revolutionary in structure.

The clearest sign that the Europeans are competing with the Americans is the recent news that a UK information and research house specialising in the managed futures industry, TASS Management, has been selected by the US industry trade associations, the Managed Futures Association and the Futures Industry Institute, to develop a definitive index for the managed futures industry.

Nicola Meaden, managing director of TASS, says: "Much of the traditional fund management community now recognises the value of incorporating managed futures into well diversified portfolios."

Beverly Chandler is the author of "European Managed Futures Funds – a guide to derivatives for the institutional investor", a Financial Times Management Report. Price: UK £248; overseas: £258/US$439. For further information contact the Financial Times, telephone: 44+(0)71 799-2002. Fax: 44+(0)71 799-2259.

The quest for integration

Continued from previous page

-tion of their own and vendor-supplied technology. The main software providers – Devon Systems is the market leader, and others include C-ATS Software, Quotient, and Renaissance Software – also sell a package that serves both front- and back-office needs.

Their software fulfils a number of key functions. In the front office, it is used for transaction structuring and pricing, and for portfolio risk management that enables users to hedge the different components of risk.

In the back office, software systems handle payments and settlement processing, and also execute accounting and reporting functions. At its best, the outside vendor should offer the user a package that covers all markets and all instruments, and is fully integrated, enabling front and back offices to work smoothly together.

Some of the most sophisticated players do not just use their own technology alongside that provided by vendors; they also take third-party software, and program it to support their own models – and the providers design their products so users can do just that.

Vendor-supplied software is probably most effectively employed in the pricing of traders' derivatives books. Because no central exchange exists where dealers can find prices for over-the-counter derivatives, firms have a choice. They either build their own valuation models, or they can turn to an outside vendor, whose technology has been proven in the marketplace.

Many choose the latter course, primarily because harnessing software that is widely used in the business gives them the confidence that the models and formulas they employ to value their proprietary trading portfolios are not out of kilter with the rest of the market's.

Those banks that rely on in-house developed systems to value books are taking a risk. No one else is using their system, so it is difficult to determine whether they are correctly valuing their derivatives books. In a highly competitive business that thrives on innovation, keeping up with the latest derivatives technology can be expensive.

Although it varies greatly, according to the size of each operation, industry observers estimate that a reasonably-sized player in the market can spend anything between $100,000 and several million dollars a year on vendor-supplied software alone.

When the cost of the hardware, or of developing in-house systems, is added, the figures reach tens of millions of dollars. And firms never stop spending on technology. As Mr Patrick Brazel, of Devon Systems explains: "You pay all the time, because of the rate of change of functional changes in the systems."

DERIVATIVES 8

MANY COMPANIES have now been using derivative products of various sorts for more than a decade. They have advanced further down this route than investment managers, but there is still considerable scope for growth.

The corporate users: the variety of applications is widening, says **Tracy Corrigan**

Currency upheaval wins converts

Most large companies – such as BP, which runs its large treasury operation as a separate bank – are already sophisticated users of derivatives. But smaller companies are also venturing into the market.

Meanwhile, the variety of applications is widening, with a number of companies now hedging their exposure to commodity prices, as well as the interest rate and foreign exchange movements. However, many companies remain rather cautious about using so-called "exotic" options, which involve complex variations to shift exposure.

In a recent survey, in the financial monthly Institutional Investor, more than a third of US companies questioned said they use derivatives to hedge overseas investments.

More than 82 per cent had been using derivatives for more than two years, including 12 per cent for more than 10 years. Interest rate swaps are the most popular instruments (79 per cent use them), while 40 per cent use foreign exchange options and 64 per cent use foreign exchange forwards.

The turmoil in Europe's foreign currency markets this autumn has created more converts. Treasurers can no longer feel comfortable with large exposures to foreign currencies, even within supposedly fixed-exchange rate systems.

'Many companies have increased their hedging activity since Black Wednesday'

Companies are "suddenly much more aware of the risks. The dealings and profits which a company has at any moment can be wiped out in hours, let alone days," according to Mr Les Halpin, a director of Record Treasury Management.

A survey by the management consultants Touche Ross showed that 85 per cent of companies had selective hedging cover last year. Interest has grown even more sharply in recent months. "We advise 25 of the FT-SE 100 companies, and quite a large number have increased their hedging activity since Black Wednesday," said Mr Derek Ross, a Touche Ross partner.

Currency risk management is no longer relevant only to exporters and importers, because many companies now have overseas operations.

Derivative products allow companies to fix costs and income flows in advance, *which is particularly valuable* for companies under pressures as a result of economic recession.

But companies are also aware of the risks inherent in the use of these complex financial instruments.

The loss of £150m in foreign exchange dealings last year by the treasury department of Allied-Lyons, the UK food and drinks group, clearly illustrated the potential dangers, if corporate treasury operations are not carefully controlled. The problem stemmed from the practice of writing currency options, which can lead to unlimited losses. Usually, only banks, which manage their risks on a continuous basis, take on that sort of exposure.

Which derivatives do chief financial officers use? (%)

Foreign exchange forwards	64.2
Interest rate swaps	78.9
Forex exchange options	40.4
Oil- and energy-linked swaps	11.9
Other commodity-linked swaps	14.7
Listed interest rate futures and options	29.4
Listed forex futures and options	11.0
Listed equity futures and options	10.1
OTC interest rate futures and options	13.8
Equity-linked swaps	4.6
OTC equity swaps	2.8
"Exotic" options, or options with limits	8.3
Others	5.5

Source: Institutional Investor

But paradoxically, the recent turmoil in the foreign exchange market could encourage some companies to take greater risks. Those companies which hedged foreign currency exposure by buying options before the start of the onslaught in the summer were able to buy options cheaply.

That is because the largely successful operation of the exchange rate mechanism, until that point, had reduced volatility in the foreign exchange market. Since volatility – historic and implied – is a key component in the pricing of options, companies who bought options earlier this year, and were then protected during the subsequent upsurge in volatility, got excellent value for money.

However, the extremely volatile market conditions which have persisted during the autumn have pushed option prices through the roof. *In addition to the greater volatil*ity, prices have been edged higher by some banks which had suffered losses by selling options cheaply in the past.

Now, the expense of buying options is proving prohibitive for some companies. Treasury operations which are operated as profit centres rather than cost centres are particularly loath to pay up.

Instead, many more are opting for "dynamic" hedging, which involves managing risk on a continuous basis, by using the forward and spot foreign exchange markets.

Treasurers have also been finding their interest rate exposure more difficult to manage, due to difficult market conditions. Swap market rates have *generally been unattractive*, making it harder than ever for companies to borrow cheaply.

Volatile market conditions during the autumn pushed option prices through the roof

During the 1980s, companies were able to borrow at levels well below the London interbank offered rate (Libor), by swapping the fixed-rate money they raised through bond offerings into floating-rate financing. Now, only the best-rated borrowers can hope to do this.

In the US, borrowers have been unwilling to lock themselves into medium-term fixed-rate interest costs, given that short-term rates are extremely low, and rates are expected to ease further. The result has been a lack of companies or institutions willing to pay the fixed-rate leg of a swap agreement, reducing opportunities to manage interest rate exposure through the swaps market.

"Swaps and bonds have become much more closely correlated. Those who want cheap funding are now having to take risks to get it," said Mr Nick Burge, executive director at Nomura International.

However, one benefit of the Allied Lyons débâcle was that it prompted many companies to strengthen the ties between the treasury operation and the rest of the company, especially the main board. As more complex derivative products are introduced, stringent controls become imperative.

The crux of the matter is that the job of the treasurer is to "keep the company's options open, so it can launch a new product or open a new factory," believes Mr Gerald Leahy, director-general of the Association of Corporate Treasurers.

The investors: **Richard Waters** on new uses for familiar instruments

Higher return, no extra risk

BACK IN 1987, it was called "portfolio insurance", and was blamed in large part for the collapse of share prices in New York and, by extension, around the world.

Today, it is called "dynamic asset allocation". But it all adds up to the same thing: an attempt by investors to use financial derivatives to protect and enhance the value of their assets.

Fund managers have traditionally used derivatives for one of two purposes: to protect themselves against losses on assets they are holding; or to shift their exposure between markets quickly and cheaply.

Now, a third use of derivatives is taking hold: to generate a higher return from a portfolio without increasing the risk profile. A growing number of hedge funds are on offer to investors, employing trading strategies based on derivatives to boost investment return. Such specialised vehicles are most common in the US, and are slowly becoming fashionable in Europe.

Innate conservatism on the *part of many investors makes* such schemes difficult to sell. "It is almost impossible to get a German pension fund to use options," says Mr Jonas Martenson, of the Brussels-based Europtec fund, which claims to have been the first Europe-wide hedge fund a year ago. Institutions in the Netherlands, Sweden and UK are currently the most susceptible to funds that specialise in options trading strategies, he says.

Stock index futures remain the main vehicle for hedging equity market exposure

A further use of such investment techniques is to tailor the return on a particular portfolio more closely to the fund manager's objectives. "For fund managers, the question is how *you engineer a particular kind* of pay-off profile. The whole of option theory is about that," says Prof Stewart Hodges, director of the financial options research centre at the University of Warwick.

At present, however, the bulk of fund managers use derivatives in only a limited way, if at all. Stock index futures remain the main vehicle for hedging equity market exposure, though some institutions have used other ways of putting a floor under their investment portfolios. Royal Insurance in the UK, for instance, paid around £7m for a put option in the run up to the UK's general election earlier this year, to protect itself against a stock market collapse.

Index futures also remain the favourite way of shifting exposure quickly between markets, making it possible to avoid *the heavy costs* associated with liquidating one equity portfolio and building another.

"If the market is big enough, it is entirely sensible for an institution that wants to take a view, or change a position in a market rapidly, to use futures," says Mr David Wilkie of consulting actuaries R.Watson. "You could run a small portfolio without buying any shares at all. It's an economic way of doing it."

However, even this use of derivatives is frowned upon by many investment managers. "It enables you to take decisions too quickly," says Mr Peter Stanyer, head of investments at the British Rail pension fund. "For it to be expensive, and take time to shift assets from one market to another, may be a good thing."

While considerable resistance remains, the institutional obstacles to the use of derivatives by fund managers have largely been dismantled in recent years. The UK provides a good illustration of the advances that have been made – and the drawbacks that remain.

*The tax position of deriva*tives was cleared up in the 1990 Finance Act. Last year, the Securities and Investment Board produced rules on "efficient portfolio management", outlining when the use of futures and options was an acceptable practice. And earlier this year, the London Financial Futures and Options Exchange published valuation guidelines intended to standardise performance measurement for fund managers which use futures and options.

In practice, however, considerable obstacles and doubts remain. Liffe's recommendation on the valuation of options, for instance, is not universally accepted. "They shouldn't be valued at market value, but on prudent lines," says Mr Wilkie. At the moment, "different companies *do it different ways and no one* has thought a lot about it," he complains.

Nor have the SIB's regulations made it clear in all circumstances when investment managers can use derivatives. It requires "congruence" between an underlying investment and a derivative used to hedge it – a vague term that has the managers of unit trusts (open-ended mutual funds) scratching their heads. Some have interpreted it to mean, for instance, that an equity investor should not buy an index future unless its underlying portfolio has at least a 90 per cent correlation to the index – highly unlikely for anyone except the manager of an index-tracking fund.

The UK illustrates the advances that have been made – and the drawbacks that remain

Further interpretation of regulations lies ahead: the European Community's third life assurance directive, for instance, will limit use of derivatives to hedging, not speculation. Drawing the line between the two is likely to exercise regulators' minds further.

While uncertainties like these remain, many investment managers and trustees continue to stay away from the derivative markets, prefering not to bridge the psychological (and educational) divide.

The psychological resistance stems in part from the fact that fund managers are generally judged against their peers, *rather than in the light of their* absolute investment return. "Fund managers all want to be part of the herd," says Prof Hodges. "They are all worried about tracking errors."

When markets move sideways or down, that defensive approach to investment management may no longer hold sway. Such an approach, however, is still a long way off.

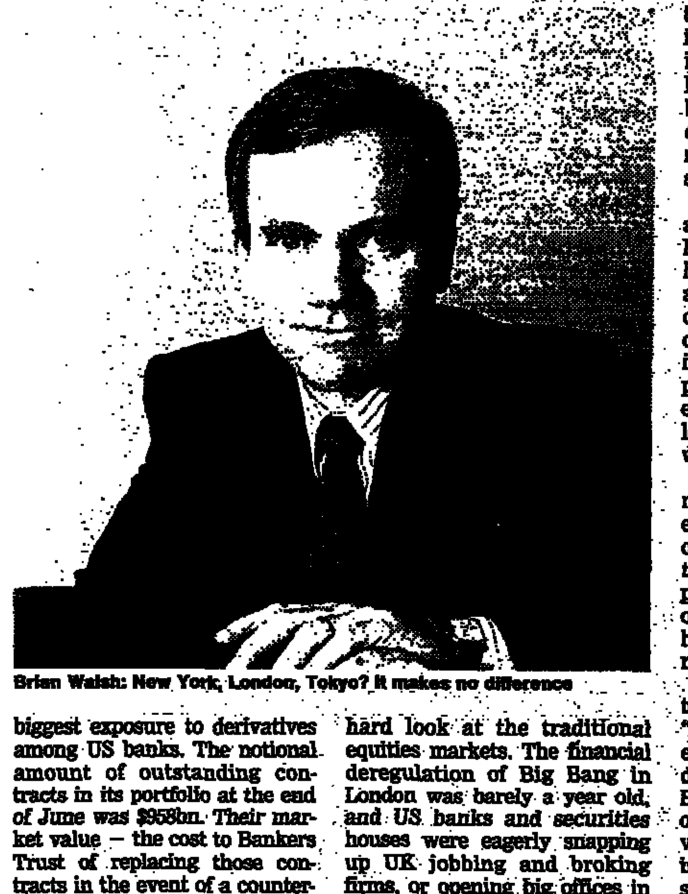
Profile: **Patrick Harverson** on the derivatives operation at Bankers Trust

Products before geography

AT 38, Mr Brian Walsh may seem a bit young to be running the global capital markets group of Bankers Trust, but as the executive in charge of the bank's derivatives business, he is operating in a market that is itself remarkably precocious.

Mr Walsh estimates that the over-the-counter derivatives business is no more than eight or nine years old – "not yet in adolescence". In a short space of time, the market has experienced extraordinary growth, as has Bankers Trust's own operations – and those of any other big bank or securities house involved in the market.

When Mr Walsh joined the company seven years ago, the derivatives group was still in its infancy and employed no more than 70 professionals. Today, more than 300 derivatives specialists occupy the front office, supported by almost twice as many back-office staff who handle the processing, accounting and reporting of the transactions booked by the bank.



Brian Walsh: New York, London, Tokyo? It makes no difference

At Bankers Trust, its derivatives operations are organised globally and managed out of the bank's Manhattan head office. Mr Walsh says: "I'm here in New York, but I could be in London, I could be in Tokyo – it makes no difference."

This is because the business is not divided up geographically, but by product lines, so *that there is an interest-rate or* a currency-swap book that is passed around the bank's international offices, and kept entirely separate from the cash businesses that underly the derivatives.

Bankers Trust's derivatives group serves about 500 clients, of whom roughly 200 have especially active accounts. The clients are split into three groupings: financial institutions, corporations and investors. Whereas, four years ago, financial institutions took up the bulk of the business, today the bank does more business with *investors (such as pension* funds, money managers, mutual funds and insurance companies) than with any other category.

Mr Walsh says that the vast bulk – about 80 per cent – of his department's business is client-related, which means that *Bankers Trust* relies less on proprietary derivatives trading than many of its rivals. The bank does not break down its earnings from derivatives in its quarterly and annual reports, but people familiar with Bankers Trust estimate that the derivatives group produces about 25 per cent of the bank's total non-interest revenues, which last year reached $2.5bn.

In terms of the size of its business, according to ratings agency Standard & Poor's, Bankers Trust has the fourth biggest exposure to derivatives among US banks. The notional amount of outstanding contracts in its portfolio at the end *of June was $958bn. Their mar*ket value – the cost to Bankers Trust of replacing those contracts in the event of a counterparty default – was $21.6bn, a relatively high risk profile for the bank's size, says S&P, because it is more involved *than most in riskier commodity* and equity contracts.

Like the rest of the market, Bankers Trust came to derivatives in the early and mid-1980s, beginning with interest rate, and then currency swaps, which at the time seemed complex and daring financial instruments to both bankers and their clients.

After initially concentrating on "back-to-back" transactions, and playing the role of the intermediary bringing both sides of the deal together, it was not long before Bankers Trust began acting as a principal. This was a significant change, because it gave birth to a new era of risk management within firms – the hedging and managing of the derivatives book.

During the 1980s, the bank followed a growth path that was familiar throughout the *industry. After swaps came* interest-rate and currency options, instruments that, because of their complexity, says Mr Walsh, attracted many bright mathematicians and physicists to the business – the "rocket scientists" of financial folklore – and "bred a culture of innovation".

By mid-1987, Bankers Trust and other players had begun searching for new asset forms upon which to build new derivatives business. At the time, the bank was taking a long, hard look at the traditional equities markets. The financial deregulation of Big Bang in London was barely a year old, and US banks and securities houses were eagerly snapping up UK jobbing and broking firms, or opening big offices in the City. At home, US houses were earning enormous profits from their basic equities broking and trading businesses.

Bankers Trust, however, decided to "focus on something we knew", in equities, says Mr Walsh. What it knew was derivatives, and the new business "took off like a rocket," enabling the bank to make money from the first day from products such as Japanese warrants and Japanese convertibles.

One of Bankers Trust' most successful innovations in this area has been the Equity Protected Note, a zero-coupon index-linked note that protects investors' downside but offers a lot of upside potential. The banks has sold billions of dollars of the notes all over the world, not just to institutions but to small individual investors.

The market soon turned its attention to commodities. Here, however, regulatory constraints held back development, although the start of the Gulf crisis in 1990 persuaded many corporate clients that commodity derivatives had a role to play in risk management. Bankers Trust is currently doing a lot of work in the energy field with oil company clients.

Credit derivatives is another new field that Bankers Trust is eagerly ploughing. So far, it has completed about 15 transactions, *employing a handful of* products, and it is also working on insurance derivatives to help insurers manage their risk more effectively.

While much of the action today is concentrated on such "esoteric instruments" as equity, commodity and credit derivatives, companies like Bankers Trust continue to work on the more *traditional* "plain-vanilla" products, re-engineering interest rate and currency swaps to fit clients' needs.

Over the past decade, Bankers Trust has had its share of misses alongside the hits, including one-off ideas that never worked. Some of the bank's established lines of business have also run into hard times – the commodity derivatives market, for example, is currently plagued by a lack of volatility in the underlying cash products.

Overall, however, Mr Walsh is proud to say that Bankers Trust has so far never withdrawn from a new initiative or market because of losses.

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